Board Of Investments

Fiscal Year 2003 Annual Report

MONTANA BOARD OF INVESTMENTS

Department of Commerce

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Helena, MT 59620-0126
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The Honorable Judy Martz, Governor

BOARD MEMBERS

- ***Richard Anderson, Chairman***
  Building Contractor/Developer
  Dick Anderson Construction
  Helena
  Term Ending 01/01/2005

- ***Dennis Beams***
  Senior Vice President
  Glacier Bank
  Kalispell
  Term Ending 01/01/2005

- ***Karen Fagg***
  Business Executive
  HKM Engineering, Inc.
  Billings
  Term Ending 01/01/2007

- ***Maureen Fleming***
  Professor of Management
  School of Business Administration
  University of Montana, Missoula
  Term Ending 01/01/2007

- ***Jay Klawon***
  Investment Representative
  Edward Jones Investments
  Hamilton
  Term Ending 01/01/2005

- ***Joel T. Long***
  Business Executive
  JTL Group, Inc.
  Billings
  Term Ending 01/01/2005

- ***Terry Moore***
  Senior Vice President
  First Interstate Bank
  Billings
  Term Ending 01/01/2007

- ***Tim Ryan***
  State Director
  USDA Rural Development
  Bozeman
  Term Ending 01/01/2005

- ***Calvin Wilson***
  County Attorney
  Big Horn County
  Busby
  Term Ending 01/01/2007

MONTANA BOARD OF INVESTMENTS
Staff as of June 30, 2003

- ***Carroll V. South***
  Executive Director
- ***Geri Burton***
  Deputy Director
- ***Louise Welsh***
  Senior Bond Program Officer
- ***Sheryl Clark***
  Bond Program Assistant
- ***Bobbie Pomroy***
  Science & Tech Portfolio Manager
- ***Julie D. Endner***
  Network Administrator
- ***Kimberly R. Dallas***
  Front Office Manager
- ***Judith Carlson***
  Front Office Assistant
- ***Sara LaFountaine***
  Imaging/Scanning Assistant
- ***Gayle Moon, CPA***
  Accounting Fiscal Manager
- ***Tammy Hjelseth***
  Accountant
- ***Roberta Diaz***
  Accountant
- ***Dawn Doyle***
  Accounting Technician
- ***Roxanne LaRoque***
  Accountant
- ***Coralie Sciuchetti***
  Accountant
- ***Tami Pippin***
  Accountant
- ***James R. Penner, CFA***
  Chief Investment Officer
- ***Dana Chapman***
  Investment Office Manager/Mortgage Analyst
- ***Richard Cooley, CFA***
  Assistant Investment Officer-Fixed Income/STIP
- ***Robert Bugni, CFA***
  Senior Investment Officer-Fixed Income
- ***Rande Muffick, CFA***
  Assistant Investment Officer-Domestic Equities
- ***Edward Kelly***
  Assistant Investment Officer-External Managers
- ***David Ewer***
  International Equities & Research Manager
- ***Paul Runnalls***
  Internal International Investment Manager
- ***Delrene Rasmussen, CPA***
  Assistant Investment Officer -Montana Investments
- ***Herbert Kulow, CMB***
  Senior Portfolio Manager-Montana Investments
- ***Richard Bridegroom, CMB, ARU***
  Mortgage Analyst
- ***Sandi Conrady, CMB, ARU***
  Mortgage Analyst
- ***Roberta Ecklund***
  Investment Analyst
- ***Adam L. Nelson***
  Investment Analyst
- ***John Romasko, CFA***
  Investment Analyst – Fixed Income
- ***Daniel Stevens, CFA***
  Investment Analyst
- ***Steve Strong***
  Investment Analyst
- ***Lon Whitaker***
  Investment Analyst

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INTRODUCTION

The Montana Board of Investments (Board) is honored to submit its Annual Report for the fiscal year ended June 30, 2003. This report, required by law, discloses investment performance for the past fiscal year, summarizes the in-state investment activities of the Board, and provides public access to audited financial statements. Unless otherwise noted, all references to years in this report are state fiscal years beginning July 1 and ending June 30.

General Board Responsibilities

Unified Investment Program **-** Article VIII, Section 13 of the Montana Constitution requires that the legislature provide for a unified investment program for public funds and that the program be audited annually. Section 17-6-201, MCA established the unified investment program, created the Board, and gave the Board sole authority to invest state funds in accordance with state law and the state Constitution. State law requires that the Board operate under the "prudent expert principle," defined as: 1) discharging its duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; 2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return; and 3) discharging its duties solely in the interest of and for the benefit of the funds managed.

Prior to the Board's assumption of the state's investment program, state funds were invested by individual state agency staff, usually on a part-time basis. The creation of the Board in 1972 permitted a full-time professional investment staff to invest all state and (at the discretion of local governments) local government funds. At its first meeting in August 1971 the Board established four major goals:

- to centralize the state's investments;
- to invest the state's idle cash;
- to increase earnings on the state's investments; and
- to establish a sound system of control over the investment process, including provisions for systematic financial reporting, measurement of investment results, and a regular independent audit.

The unified investment program has grown from a book value of $321 million at year-end 1972 to a book value of $8.5 billion at year-end 2003 - an annual average increase of 11.2 percent. During the same period, the number of accounts invested by the Board increased from 40 accounts to 544 accounts.

In-State Investments **-** In addition to the Board's primary role of managing the state's unified investment program, the legislature has encouraged the Board to assist in Montana's economic development. Montana law (17-6-304, MCA) states that the "objectives for investment of the Permanent Coal Tax Trust Fund are to diversify, strengthen, and stabilize the Montana economy, and to increase Montana employment and business opportunities while maintaining and improving a clean and healthful environment. " Section 17-6-305, MCA, states that "the Board shall endeavor to invest up to 25 percent of the Permanent Coal Tax Trust Fund . . . in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises." In recent years the Legislature has created two new loan programs - the "Infrastructure and Value-Added Loan Programs – and set aside $50.0 million of the Trust for each program.

Commercial\Infrastructure/Value-Added Loans - The Board manages these programs in conformance with the "prudent expert principle" and does not invest solely to improve Montana's economy. Operating the in-state investment program under the "prudent expert principle" has not prevented the Board from investing millions of the Trust to spur Montana's economy. Since the program's inception in 1984 through 2003, the Board has funded 1,107 loans totaling $398.1 million in 43 of Montana's 56 counties. Loans funded by county are shown on Page 54.

Mortgages - The Board also purchases Montana mortgages with pension funds as a part of the in-state investment program. At year-end 2003 the Board held 3,053 mortgages with total book values of $205.9 million in 55 of Montana's 56 counties - a decrease from the 4,360 mortgages valued at $324.0 million held at year-end 2002. The Board serves as a secondary market to qualified financial institutions in the in-state investment programs and does not lend directly to borrowers. Outstanding mortgages by county are shown on Page 52.

Bond Program - As a part of the Board's in-state investment activities, it also sells bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or bridge financing are also available. Both the bond program and the in-state investment program, funded from the Permanent Coal Tax Trust, were created in fiscal year 1984 as part of the "Build Montana" program. Since the program's inception, $166.0 million has been loaned to eligible governments. Additional information on the Bond Program is shown on Page 56.

Securities Lending - Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. Investment firms borrow securities to cover short positions, failed deliveries, arbitrage trades, and other brokerage activities. In recent years the Board has lent securities to qualified borrowers who pass rigorous tests and meet high standards for credit quality. Although state law requires that securities on loan be collateralized at least 100 percent, the Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously.

State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program and retains 25 percent of the income generated as compensation for managing the program. The state earned $934,933 of securities lending income in 2003, compared to $1.8 million in 2002. Because this program is demand driven by the markets, earnings are volatile.

Board Operations

Board Staff - The Board, comprised of nine members appointed by the Governor to staggered four-year terms, employs a Chief Investment Officer and an Executive Director who hire staff as authorized by the legislature. The current authorized staffing level of 34 full-time equivalents consists of two positions hired by the Board, plus 17 investment staff, six accounting staff, three bond program staff, and six support staff. Board staff also provides administrative support to the Montana Facility Finance Authority. Except for private equity, some international stock, and equity index investments, the unified investment program is managed entirely by Board staff.

Board Administrative Costs - The investment portion of Board operations is funded by administrative charges against the funds it invests, while the bond program is primarily funded by the "spread" between the interest paid on bonds issued and interest received on loans made. Effective in 1998, the Legislature sets the maximum fees the Board may charge in the investment program. Board management fees in 2003 were 3.7 basis points of the average fair market value of internally managed portfolios. Custodial bank fees were less than 1 basis point of the Total Fund's average fair market value.

Board Policies and Procedures

Investment Policies **-** The Board adopts an investment policy for each individual fund it invests, except for funds investing in STIP only. The policies are tailored to the specific needs of the fund and are implemented only after consultation with the administrators of the funds. Asset allocations and investment time horizons are established by policy, as are the benchmarks against which investment performance is measured.

Benchmarks **-** The Board establishes appropriate benchmarks for each asset class and the Custodial Bank develops a composite benchmark for each fund that parallels the fund's asset allocation at market value.

Board Meetings **-** Board meetings are held at approximate six-week intervals. Meeting dates, agenda, and minutes are posted on the Board's web page at www.investmentmt.com. All Board decisions are discussed and voted on in meetings open to the public.

Report Content

This report contains historical data from 1972 (the first fiscal year the Board managed the unified investment program) through 2003. All historical data were extracted from the Board's annual published reports. Statistical data are provided on the Board's investment activity in 2003 and changes in investments from 2002. Appendix A includes income generated by account and securities portfolios for all accounts managed by the Board. Appendix B contains the Board's audited financial statements with accompanying portfolios. The financial statements provide detailed information on the investment pools, the "all other funds" account, and the Bond Program.

Report Terminology

Book Values of fixed-income investments represent the securities' par values, plus or minus amortized premiums or discounts. Book value of equity securities is the average cost of the securities at the time of purchase.

Fair Market Values reflect the value of securities on June 30 as priced by the Custodial Bank, or other sources.

Net Asset Value **(NAV)** as it relates to Investment Pools reflects the fair value of the pool securities, adjusted for payables, receivables, and cash on hand at year end. The aggregate fair value of the pool units held by pool participants equals the NAV of the pool.

Income Return utilizes actual invested balances and investment income as recorded in the state accounting system. The calculation divides the annual net income by one-half the sum of the beginning and ending invested balances. The income includes interest, dividends, amortization of premiums/discounts, securities lending income, and distributed realized gain/loss. The calculation is performed by Board staff. Income return does not consider any change in the fair market value of the portfolio during the period**.**

Total Rates of Return**,** calculated by the Custodial Bank, include all investment income and the unrealized gains/losses resulting from annual changes in the market value of investments, after cash flows are netted. For periods longer than one year the returns are compounded and annualized. The total rate of return is used by the Board to compare investment staff performance to various stock/bond indices selected by the Board.

Acronyms used in the annual report include those listed below:

- **STIP** Short Term Investment Pool
- **MDEP** Montana Domestic Equity Pool
- **MTIP** Montana International Stock Pool
- **MPEP** Montana Private Equity Pool
- **RFBP** Retirement Funds Bond Pool
- **TFBP** Trust Funds Bond Pool
- **NAV** Investment Pool Net Asset Value
- **PERS** Public Employees' Retirement System
- **TRS** Teachers' Retirement System
- **T&L** Trust and Legacy Account (School Trust)
- **RIT** Resource Indemnity Trust
- **FWP** Department of Fish, Wildlife, and Parks
- **DNRC** Department of Natural Resources & Conservation

ECONOMIC AND INVESTMENT OVERVIEW

Fiscal Year 2003 Review – A strong fourth quarter performance for the equity markets highlighted a rare year when investment returns for equities and fixed income instruments thrived. Record low interest rates propelled bond prices higher and optimism about future economic activity thrust the domestic stock market higher by about 20% in the fourth quarter of the year. Index highlights for the year included the following:

- The S&P 500 Index gained 0.3 percent due to a fourth quarter rally
- NASDAQ advanced 10.9 percent for the year
- MSCI Europe Index dropped 4.8 percent
- MSCI Custom Pacific Index dropped 6.0 percent
- The Lehman Aggregate Bond Index gained 10.4 percent

Portfolio performance was highlighted by bond investment returns in excess of 15 percent for the year versus the 10.4 percent return as measured by the Lehman Aggregate Index. The three-year investment return for long bonds exceeded 12 percent. Fixed income market returns were supported by an accommodative Federal Reserve Board (Fed) that continued to move short-term interest rates lower. Short-term treasury yields plunged further during the year as the target "fed funds" rate dropped another 75 basis points to 1.00 percent.

Inclusion of a blend of smaller company stocks managed externally from a newly initiated small-cap enhanced index portfolio and a two plus percent outperformance of the internally managed large cap portfolio resulted in a 2.1 percent return for domestic stocks, comfortably beating the 0.3 percent return of the S& P 500 or the 0.8 percent return of the Russell 3000.

Economic Conditions – Economic conditions were deteriorating early in the fiscal year as consumer confidence dropped from 106 in June to 79 in October of 2002 and industrial production was declining. The Fed moved decisively in October lowering interest rates by 50 basis points to stem the erosion of confidence. Industrial production and capacity utilization remained flat to down for the remainder of 2002. Monetary stimulus was supplemented by fiscal stimulus as another large tax cut was enacted by Congress in the spring of 2003. Despite modest advances in gross domestic product (GDP) numbers in the first two quarters of 2003, the economy was not advancing enough to register an increase in employment. Thus, the Fed in June 2003 dropped rates another 25 basis points to the lowest levels in nearly 50 years.

Investment Policy Considerations – Total assets managed by the Board of Investments under the Montana Unified Investment Program increased to a market value of $9.0 billion during fiscal 2003. Pension fund assets grew to $5.3 billion. At year end, equity securities in pension fund portfolios comprised 63 percent versus a target allocation of 65 percent. The Board continues to increase pension fund investments in equities and increased its equity diversification and risk reduction efforts by adding a passive element and in the most recent year, by investing in an enhanced small cap index fund.

The investment plan approved for the pension funds targets an increase in international equity investments from the current 9.2 percent allocation to 12.0 percent of the pension assets and an increase in private equity investments from the current 5.7 percent to 7.0 percent over the next two years with a corresponding reduction in the fixed income allocation. The domestic equity S&P 500 index portfolio, started in fiscal 2000, has grown in market value to $662 million at fiscal year end representing 12.4 percent of pension assets or alternatively, about 26% of the total domestic equity assets. This portfolio is targeted to reach a maximum of 33 percent of the domestic equity assets in the next two years. The total domestic equity asset allocation is capped at 45.0 percent of the total pension fund portfolio, subject to rebalancing with a 5.0 percent buffer. Finally, the initial target for the small-cap enhanced index portfolio is about 5.0 percent of the total portfolio or 10.0 percent of total domestic equity assets.

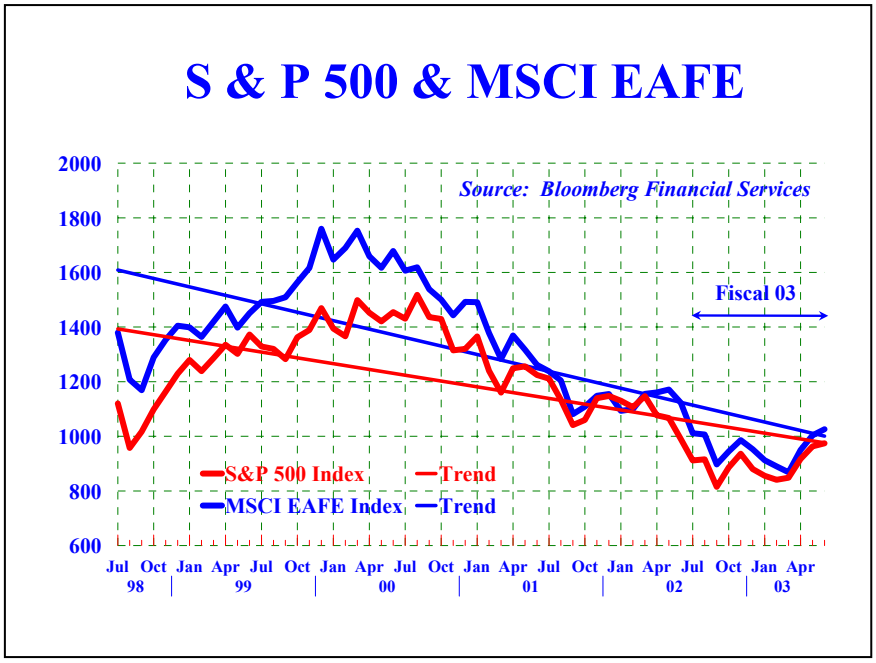
The State Fund received constitutional and legal authority by referendum in the fall of 2000 to invest up to 25.0 percent of its investment portfolio in equities at book value. A dollar cost averaging program in an S&P 500 Index Fund product was completed in June 2002 capping the portfolio at 12 percent. Additional equity investments may be added to the State Fund portfolio as the total portfolio grows to maintain a minimum 8 percent allocation to equities.

Over the last 75 years, long-term corporate bonds have returned *5.9 percent annually, long-term government bonds yielded *5.5 percent annually, and US treasury bills returned *3.8 percent annually. However, during the same 75-year period, equity investments in large company stocks returned 10.2 percent annually and equity investments in small company stocks have returned 12.1% annually. The average inflation rate for this same period was 3.0 percent. The state Constitution prohibits equity investments in non-pension funds such as the Permanent Coal Tax Trust Fund and the Trust and Legacy Fund.

*Source: Roger G. Ibbotson and Rex A. Sinquefield, Stocks, Bills, and Inflation: The Past and the Future For Period Ending 12/31/2002.

EQUITIES

After two years of negative returns, domestic equity markets advanced ranging from a minuscule 0.3 percent return for the S&P 500 to a 10.9 percent advance for NASDAQ. The MSCI EAFE index declined 4.8 percent. A fourth quarter rally in the domestic stock market offset a dismal first half of the year. Investors took heart that the stimulus being provided by the Federal Reserve and the federal government would ultimately be sufficient to bolster the economy and lead to restoration of corporate profit growth. The graph at left depicts the S&P 500 Index and MSCI EAFE (global equity index) values during the past five years.



Domestic Equities – Montana pension funds' domestic equity allocation has grown from approximately $219 million at the end of fiscal 1986 to $2.6 billion today and represents 48.6 percent of the total pension fund portfolios. Despite generally declining market valuations over the last three years, the strategy to substantially increase the allocation to domestic equities has helped the Montana pension funds improve their funding status by capturing the investment returns afforded equity market investors in the last ten years.

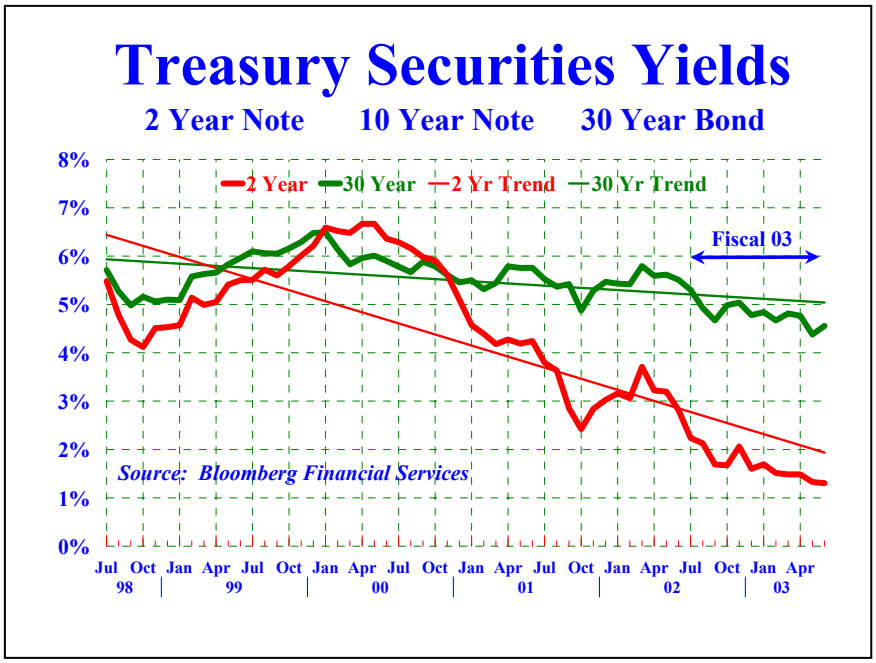
International Equities – The market value of International common stock investments increased by 5.8 percent to $446.6 million at year-end excluding a nominal amount of American Depository Receipts in the Montana Common Stock Pool. International equity investments comprised 8.4 percent of the total pension fund portfolio at year-end and are targeted to grow to 12.0 percent of pension fund portfolios over the next two years. The Board's composite international investment portfolio outperformed the MSCI EAFE benchmark by 408 basis points for the 5-year period returning a positive 0.4 percent versus a negative 3.7 percent for the benchmark index.

In March of 2003, the Board voted to divest French company stocks in the internally managed MSCI Europe fund and to change the benchmark for evaluating investment performance of the portfolio to a custom index of MSCI Europe – Ex France. (That decision was reversed in on October 30, 2003.)

External money managers hired by the Board include SG Asset Management and Schroder Capital Management International for a Pacific Basin mandate (Asia plus Australia and New Zealand) and London based Pyrford International for a MSCI Europe mandate. At year end Pacific Basin assets totaled $186 million and externally managed MSCI Europe assets totaled $151 million, including an initial $41 million investment in a MSCI Europe passive portfolio. The remaining $132 million of European assets were managed internally. The Board's custodian, State Street Bank & Trust of Boston, holds all international and domestic securities in custody.

Private Equities – On May 1, 2002 the individual private equities were transferred into the Montana Private Equity Pool (MPEP). The benchmark for MPEP is an annual return of 15 percent. Investment returns have exceeded the benchmark since inception despite only returning 4.7 percent for fiscal year 2003. Pension fund investments in private equity, currently 5.7 percent of pension fund portfolios, are targeted to grow to 7.0 percent in the next couple of years.

MPEP is invested in a fund of funds private equity portfolio managed by Adams Street Partners and a number of individual direct partnerships. The fund of funds portfolio is diversified by geographical area, by time, and by private equity type (LBO, venture capital, secondaries, distressed debt, etc.) in over 100 different partnerships with each partnership having a minimum of 8 to 12 separate investments. Individual partnership investments have been made with Welsh Carson Anderson Stowe (LBO), Madison Dearborn (LBO), Lexington (Secondaries), and Oaktree (Distressed Debt). The Oaktree investment was made in fiscal 2003 and early investment returns have been highly favorable.



FIXED INCOME

The U.S. bond market recorded one of its best years ever as bond yields reached levels not attained in over forty years. The 10-year treasury note traded at a low yield of 3.11% late in the fiscal year as the Fed maintained a highly accommodative monetary stance. The graph at left depicts the yields for the 2-year treasury and the 30-year treasury during the last five years. Short-term interest rates also reached 40-year lows during the year as the Fed moved aggressively to provide liquidity to the capital markets and prevent a deepening recession.

Domestic Fixed Income – The benefits of diversification were evident with the Trust Funds Bond Pool and Retirement Funds Bond Pool registering total rates of return of 15.9 percent and 14.5 percent respectively, surpassing the benchmark return of 10.4 for the Lehman Aggregate in a year that equity portfolios had difficulty generating a positive investment return. An accommodative Fed and prospects for an improved economy caused yields to fall and corporate spreads to treasury's to tighten sharply from historical wide margins. These factors favored Montana's traditional overweighting in corporate bonds resulting in extraordinary investment returns for the fixed income portfolios. Both pools are highly diversified with a core position in agency securities and an A- average credit rating.

Treasurer's Fund & STIP (Cash Pool) – The Treasurer's Fund is invested primarily in the Short Term Investment Pool (STIP). A small amount of the Treasurer's Fund is invested in 1-3 year treasury or agency securities. STIP is Montana's cash pool and is managed using the 2A-7 rules established for money market funds with a maximum maturity of 395 days. Both funds have investment criteria emphasizing safety and liquidity at all times.

In the most recent year the Treasurer's fund government bond portfolio registered a total rate of return of 6.1 percent, significantly better than the 4.7 percent return of the Merrill Lynch U.S. Treasury 1-3 year index. The $1.4 billion STIP fund had an investment return of 1.56 percent for the year, beating its benchmark, 105% of the 91-day treasury bill yield, of 1.48 percent. STIP provides liquidity for all state funds managed by the Board and for local governments.

IN-STATE INVESTMENTS

Residential Mortgages – Purchases of Montana residential mortgages in fiscal 2003 plummeted to just over $19 million reflecting a portfolio strategy not to purchase residential mortgages yielding less than 6 percent. The Residential Mortgage Loan portfolio peaked at $328.2 million in April 2003 and has been declining rapidly as continued low interest rates have sustained a high level of refinancing activity. The Residential Mortgage Program will become more active when interest rates move closer to the pension funds current actuarial rate of 8 percent.

Commercial Loans – In-state investment activity during fiscal 2003 was highlighted by another near record year in commercial loan funding for the Coal Tax Trust. Purchases in fiscal 2003 totaled $57.2 million, just

missing record volume for the fifth consecutive year by $0.2 million. Commitments approved during the year totaled $43.7 million. Outstanding commitments assure a strong year of funding new loans in fiscal 2004.

The total in-state investment portfolio peaked at $197 million in January 2003 before refinancing activity reduced the loan portfolio to its year-end valuation of $172.7 million. The refinancing activity remains high, a benefit to Montana businesses, but will slow the growth of the loan portfolio going forward.

Staff is actively engaged in marketing the State's economic development programs logging hundreds of miles across the State to assist approved lenders. Training continues to assure that qualified staff is available to meet business demands. Loan volume is dependent on the willingness of Montana's financial institutions to share their loan portfolio with the Board of Investments.

Value-Added Loans – The value-added loan program was created by the Legislature in 2000 to provide low cost financing to Montana businesses that add value to products and create or retain jobs.

The value-added loan portfolio has five outstanding loans totaling $6.9 million and has committed to funding an additional four loans with a value of $8.3 million for a total funded and committed of $15.2 million of the $50 million allocated to the program by the Legislature.

Infrastructure Loans – The infrastructure loan program was created by the Legislature in 1995 to enhance economic development and create jobs in the basic sector of the economy. The loan proceeds must be used to build infrastructure that will allow the location or creation of a business in Montana. The loan must be made to a local government that will create the necessary infrastructure. The local government receiving the loan may charge fees to the users of the infrastructure.

The infrastructure loan portfolio has five outstanding loans totaling $9.0 million of the $50 million allocated to the program by the Legislature.

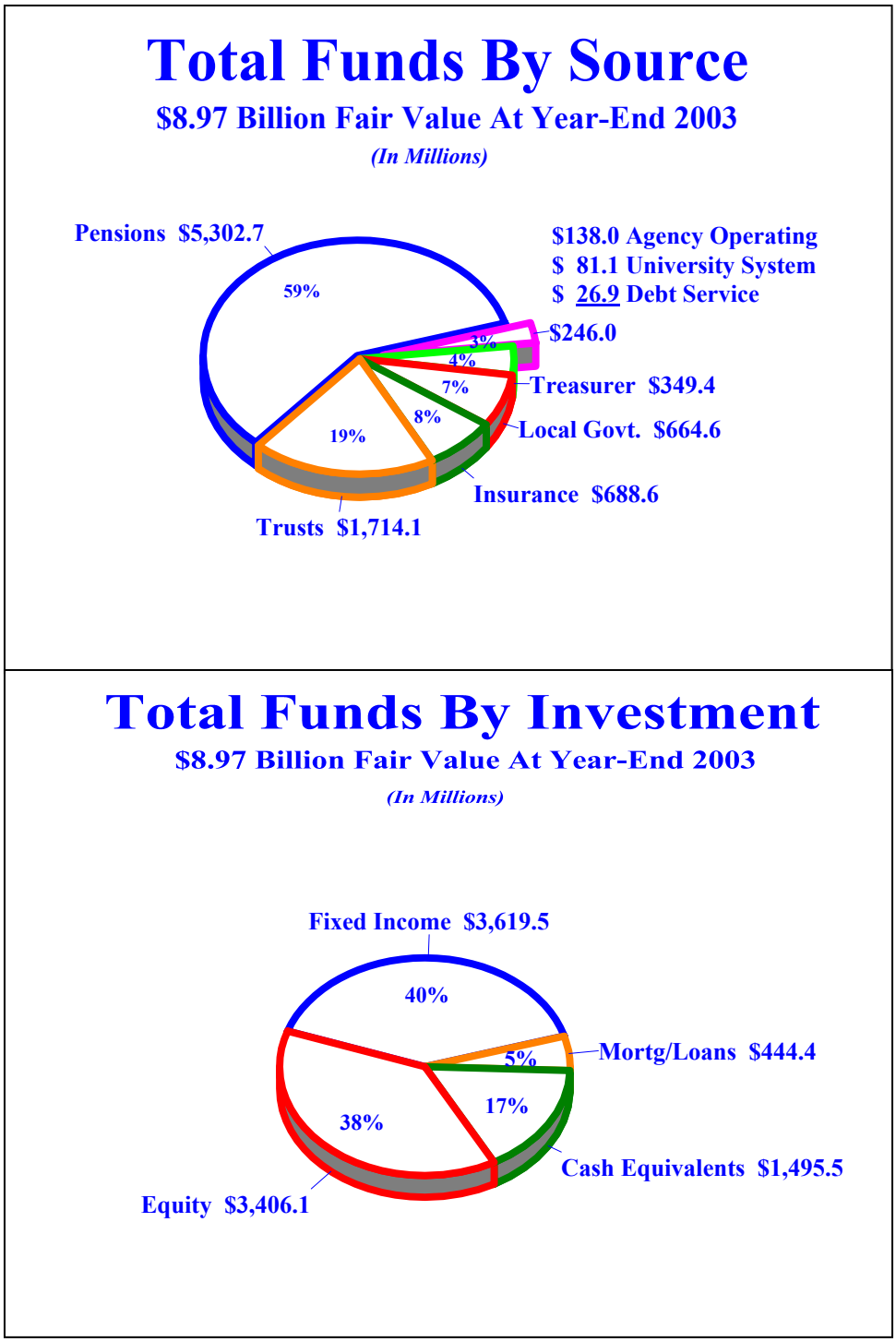
Bond Guarantees – The Coal Tax Trust also provides guarantees of $74.4 million for INTERCAP bonds, guarantees $34.1 million of Montana Facility Finance Authority MFFA (formerly Montana Health Facility Authority) bonds, provides surety bonds for pre-release facilities, and provides a $1 million letter of credit for the Rimrock Foundation, for a total of $110.5 million in guarantees and surety bonds. Over $297 million of previous INTERCAP and MHFA issues have matured since the guarantee program was initiated. These programs benefit local governments, health facilities, and pre-release facilities in Montana respectively by providing economical financing.

The table on the next page shows In-State investments for 2002 and 2003**.**

Instate Loans and Other In-State Investments

Loan Type	2003 $ Book Value	2002 $ Book Value	$ Change
Residential Mortgages	205,861,209	330,437,617	(124,576,408)
Commercial Loans	156,815,490	150,993,503	5,821,987
School Trust Loan	46,366,904	46,366,904	0
Montana Science and Technology	14,287,541	14,733,670	(446,128)
Pension Equity Real Estate	13,512,086	13,066,341	445,745
Infrastructure Loans	9,050,975	10,289,391	(1,238,416)
Value-Added Loans	6,854,640	6,627,954	226,687
Facility Finance Authority Loans	1,543,021	1,636,510	(93,489)
Department of Justice Loan	1,902,000	1,827,000	75,000
Total In-State Loans	456,193,866	575,978,889	(119,785,023)
PPL Montana	41,831,627	44,427,249	(2,595,622)
Med Map LLC (St. Vincent's Hospital, Billings)	25,990,000	26,900,000	(910,000)
First Interstate BancSystem, Montana	16,600,000	20,000,000	(3,400,000)
Butte/Silver Bow Tax Increment	5,025,000	8,090,000	(3,065,000)
Montana CRP Bonds (96 issues)	6,976,862	8,703,371	(1,726,509)
Board of Housing	1,155,000	1,155,000	0
Renewable Resource (1997A GO)	732,975	732,709	266
Total State, Local Gvt and Corporate Bonds	98,311,464	110,008,328	(11,696,864)
Total Loans and Bonds	554,505,331	685,987,217	(131,481,886)
Bond Guarantees (1)	110,596,691	97,200,000	13,396,691

(1) Guarantees of INTERCAP and Montana Facility Finance Authority Bonds



TOTAL FUND

The Total Fund is comprised of all funds invested by the Board.

Fund types invested include pensions, trusts, insurance, debt service, state agency and higher education operating accounts, and local government funds.

Unless otherwise provided by law, the Board must invest all state funds. Local governments may invest funds with the Board at their discretion.

At June 30, 2003 the fair value of the Total Fund was $8.97 billion compared to $8.64 billion a year earlier. The increase was primarily attributable to increases in the fair value of investments held in the various portfolios. Fair values reflect the value of securities on June 30 as priced by the custodial bank, or other sources.

During the year the Board invested 544 individual accounts, consisting of 352 state agency accounts and 192 local government accounts.

The Total Fund portfolio by major fund type and asset type are shown in the tables on the next page.

The Total Fund invested balances and income history are shown on Page A – 16 in Appendix A.

Total Fund By Source And Asset Allocation At Fair Value On June 30, 2003

Fund Type	Cash Equivalents $	Domestic Stock $	Fixed Income $	Mortgage/ Loans	Other Equity (1)	Total
Pensions	149,026,093	2,575,542,659	1,611,806,279	207,547,735	758,782,679	5,302,705,445
Trusts	112,820,432	911,460	1,363,538,389	236,820,571		1,714,090,851
Insurance	58,650,654		560,012,045		69,958,153	688,620,852
Treasurer's	287,713,277		61,721,299			349,434,576
Local Gov.	664,570,962					664,570,962
Agency Cash	128,296,684		9,734,745			138,031,428
Universities	67,441,069	877,891	12,733,353			81,052,313
Debt Service	26,943,452					26,943,452
Total	1,495,462,622	2,577,332,010	3,619,546,110	444,368,306	828,740,832	8,965,449,879

(1) Includes International Stock, Equity Index Fund, Private Equity, and Real Estate

Total Fund Book/Fair Values of Securities Held At June 30, 2003

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporate Bonds	3,116,143,348	3,272,945,329	156,801,980	36.6	36.6
Domestic Stocks/Indexes	2,553,846,553	2,647,414,302	93,567,749	30.0	29.6
US Government-Backed Bonds	983,297,269	1,121,042,442	137,745,173	11.5	12.5
US Mortgage-Backed Bonds	240,086,987	249,304,179	9,217,193	2.8	2.8
Montana Mortgages\Loans	442,681,780	444,368,306	1,686,526	5.2	5.0
International Stocks/Indexes	489,383,398	470,729,781	(18,653,617)	5.7	5.3
International Bonds (US $)	193,705,190	216,799,857	23,094,667	2.3	2.4
Private Equity	278,790,338	305,349,881	26,559,542	3.3	3.4
Repurchase Agreements	196,005,238	196,005,238	0	2.3	2.2
State/Local Government Bonds	13,884,836	13,886,862	2,025	0.2	0.2
Equity Real Estate	13,512,086	13,927,253	415,167	0.2	0.2
Total	8,521,337,023	8,951,773,429	430,436,406	100.0	100.0

Total Fund Annual Change At June 30 By Asset Type

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% of Change
Corporate Bonds	3,116,143,348	36.6	3,529,807,479	41.3	(413,664,130)	(11.7)
Domestic Stocks/Indexes	2,553,846,553	30.0	2,368,268,116	27.7	185,578,437	7.8
US Government-Backed Bonds	983,297,269	11.5	990,273,812	11.6	(6,976,543)	(0.7)
International Stocks/Indexes	489,383,398	5.7	442,872,610	5.2	46,510,788	10.5
Mortgages\Loans	442,681,780	5.2	556,512,888	6.5	(113,831,108)	(20.5)
Private Equity	278,790,338	3.3	184,109,131	2.2	94,681,207	51.4
US Mortgage-Backed Bonds	240,086,987	2.8	209,480,774	2.5	30,606,213	14.6
Repurchase Agreements	196,005,238	2.3	59,000,000	0.7	137,005,238	232.2
International Bonds (US $)	193,705,190	2.3	173,949,456	2.0	19,755,733	11.4
State/Local Government Bonds	13,884,836	0.2	18,681,079	0.2	(4,796,243)	(25.7)
Equity Real Estate	13,512,086	0.2	13,066,341	0.2	445,745	3.4
Total Investments	8,521,337,023	100.0	8,546,021,686	100.0	(24,684,663)	(0.3)

The tables on the next page show:

- The fair value of individual funds in descending order,
- Income generated by major funds, and
- The total rates of returns of major funds.

Total Fund By Fund At Fair Value On June 30, 2003

Fund	Fair Value $	Fund	Fair Value $
Public Employee Retirement	2,684,105,984	Debt Service STIP	26,943,452
Teacher Retirement	2,090,916,007	Vol. Firemen's Retirement	17,859,889
Local Government STIP	664,570,962	U of M Designated	17,534,237
Permanent Coal Tax Trust	580,933,123	Parks Coal Trust	17,160,629
State Fund Insurance	572,288,770	Treasure State Water	16,024,209
Trust & Legacy Fund	450,928,946	UCRFB Access	14,348,177
Treasurer's Fund	349,434,576	U of M Other	12,969,256
UCFRB Restoration Fund	155,171,067	Insurance STIP	12,765,165
Sheriff's Retirement	123,040,202	FWP Mitigation	12,127,210
Police Retirement	122,556,699	Group Benefits Insurance	9,637,281
Treasure State Endowment	117,788,739	Zortman/Landusky	7,477,775
Firefighters' Retirement	116,816,914	Wildlife Habitat Trust	6,318,566
Resource Indemnity Trust	110,560,797	Hail Insurance	5,390,669
St Agency Operations STIP	109,166,966	Weed Control Trust	5,312,503
Streamside Tailings	99,788,275	Abandoned Mines	5,222,748
Old Fund Insurance	86,641,334	Cultural Coal Tax Trust	4,861,059
Highway Patrol Retirement	70,686,225	FWP Real Property	4,615,934
Higher Education STIP	46,458,966	Guaranteed Student Loan	3,545,212
Judges Retirement	39,581,744	U of M Endowment	2,429,562
Tobacco Trust	37,726,930	MT Tech UM Agency	1,531,133
Game Warden's Retirement	37,141,780	Subsequent Injury	1,897,634
Other Trusts STIP	34,728,918	Other Trusts MTCP	911,460
FWP License Account	28,864,462	Higher Education MTCP	129,158
Montana Pole	28,538,576		
		Total	8,965,449,879

Total Fund Income

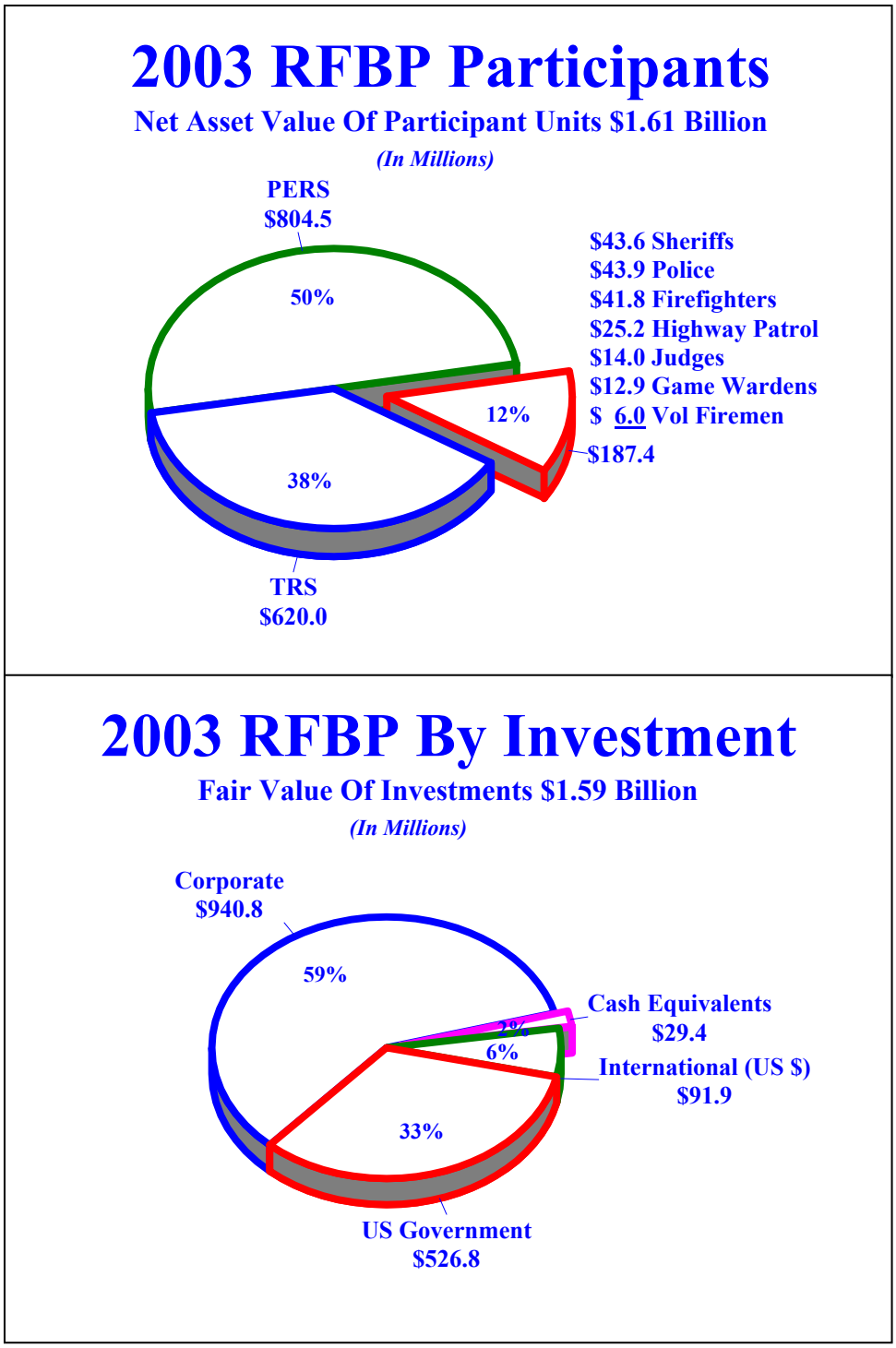
Fund Type	2003 $ Income	% of Total	2002 $ Income	% of Total	$ Change	% of Change
Public Employees Retirement	114,127,866	28.9	107,865,330	25.8	6,262,537	5.8
Teachers Retirement	95,580,408	24.2	93,575,647	22.4	2,004,762	2.1
Permanent Coal Tax Trust (1)	44,313,873	11.2	45,049,799	10.8	(735,927)	(1.6)
State Fund Insurance	29,057,347	7.4	33,494,476	8.0	(4,437,129)	(13.2)
Local Governments STIP	9,793,753	2.5	21,912,358	5.3	(12,118,605)	(55.3)
Other Retirement Systems	22,528,812	5.7	20,180,190	4.8	2,348,621	11.6
Trust & Legacy Fund	29,215,115	7.4	29,772,669	7.1	(557,554)	(1.9)
Other Managed Portfolios	14,767,308	3.7	18,301,754	4.4	(3,534,447)	(19.3)
Treasurer's Fund	6,366,439	1.6	12,414,382	3.0	(6,047,943)	(48.7)
State Agency/Higher Ed STIP	5,517,528	1.4	9,577,505	2.3	(4,059,977)	(42.4)
UCFRB Restoration Fund	10,412,111	2.6	10,370,638	2.5	41,473	0.4
Old Fund Insurance	6,044,875	1.5	7,492,078	1.8	(1,447,202)	(19.3)
Resource Indemnity Trust	7,174,343	1.8	7,320,563	1.8	(146,220)	(2.0)
Total	394,899,778	100.0	417,327,389	100.0	(22,427,611)	(5.4)

(1) Includes Treasure State Endowment and Treasure State Regional Water

Major Funds 2003 Total Rates Of Return Compared to Index

Fund Name	% Return	Index	Index % Return	Return +/- Index
Public Employees Retirement	6.61	Composite	4.95	1.66
Teachers' Retirement	6.46	Composite	4.44	2.02
Coal Tax Permanent Fund	10.62	Composite	8.42	2.20
State Fund Insurance	9.11	Composite	8.90	0.21
Trust & Legacy Fund	14.27	Composite	10.30	3.97
Treasurer's Fund	2.73	Composite	2.21	0.52
Resource Indemnity Trust	14.37	Composite	10.36	4.01

(1) An Index Composite paralleling the Fund's asset allocation at fair value



RETIREMENT FUNDS BOND POOL (RFBP)

On April 1, 1995, all fixed-income investments held by the nine pension funds were transferred to the newly-created Retirement Funds Bond Pool (RFBP). Each pension fund received shares in the pool equal in value to the fair value of its fixed-income portfolio on the date of the transfer.

The upper graph depicts the net asset value of the pool at June 30. The lower graph represents the fair value of the securities held by the pool. The difference in the net asset value and the securities held is the interest receivables included in the net asset value of the pool.

The RFBP distributed $132.1 million in income to participants in 2003, compared to $128.9 million in 2002. Income distributed includes, interest, discount/premium, and realized gains/losses.

The RFBP financial statements, which lists the individual securities in the portfolio, is shown on Page B-1 in Appendix B.

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities portfolio's total rate of return.

RFBP Annual Change At June 30

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% Change
Corporate Asset-Backed Bonds	10,000,000	0.7	1,357,024	0.1	8,642,976	636.9
Other Corporate Bonds	848,475,728	59.6	1,103,370,680	66.7	(254,894,952)	(23.1)
US Mortgage-Backed Bonds	74,506,361	5.2	60,869,572	3.7	13,636,788	22.4
US Government-Backed Bonds	379,620,878	26.7	391,589,206	23.7	(11,968,328)	(3.1)
International Bonds (US $)	82,275,560	5.8	88,904,046	5.4	(6,628,486)	(7.5)
State/Local Government Bonds	0	0.0	1,130,000	0.1	(1,130,000)	(100.0)
Total Fixed Income	1,394,878,526	97.9	1,647,220,527	99.6	(252,342,001)	(15.3)
Cash Equivalents (STIP)	29,436,910	2.1	7,423,382	0.4	22,013,527	296.5
Total	1,424,315,436	100.0	1,654,643,910	100.0	(230,328,474)	(13.9)

RFBP Book/Fair Values At June 30, 2003

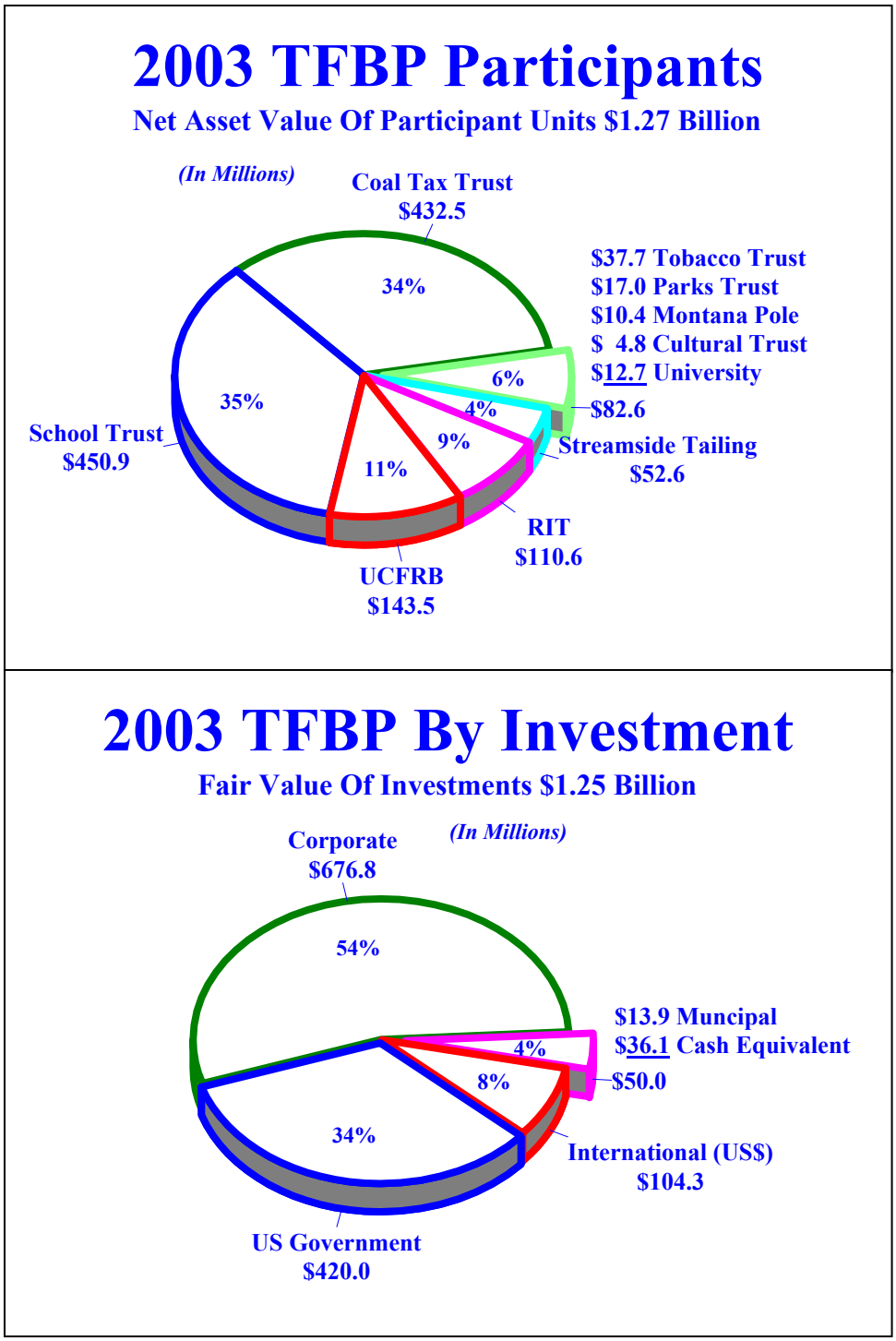
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporate Asset-Backed Bonds	10,000,000	10,000,000	0	0.7	0.6
Other Corporate Bonds	848,475,728	930,781,145	82,305,417	60.8	59.7
US Mortgage-Backed Bonds	74,506,361	77,402,316	2,895,955	5.3	5.0
US Government-Backed Bonds	379,620,878	449,442,686	69,821,809	27.2	28.8
International Bonds (US $)	82,275,560	91,917,558	9,641,998	5.9	5.9
Total Fixed Income	1,394,878,526	1,559,543,705	164,665,179	100.0	98.1
Cash Equivalents (STIP)	29,436,910	29,436,910	0		1.9
Total	1,424,315,436	1,588,980,615	164,665,179		100.0

RFBP Total Rates of Returns Versus Benchmark

Year	% Return	Market Index	Index % Return	Return +/- Index
2003	15.88	LB Aggregate Bond	10.41	5.47
3 Year Average	12.52	LB Aggregate Bond	10.08	2.44
5 Year Average	8.41	LB Aggregate Bond	7.54	0.87

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified portfolio, producing a total rate of return exceeding the Lehman Brothers Aggregate Bond Index over a five-year rolling period.
- Above average risk tolerance, especially long-term investment risk.
- Low liquidity requirements, except for investment purposes.
- Securities purchased are investment-grade as per Standard & Poor's or Moody's rating services with maturities not exceeding 40 years.
- Mortgage-backed securities purchased must be backed by the US Government or its agencies.
- All securities must pay in US Dollars.



individual securities in the portfolio, is shown Page B-11 in Appendix B.

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities portfolio's total rate of return.

TRUST FUNDS BOND POOL (TFBP)

On October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to the newly-created Trust Funds Bond Pool (TFBP). Each trust fund received shares in the pool equal in value to the fair value of their fixed-income portfolio on the date of the transfer.

The upper graph depicts the net asset value of the pool at June 30. The lower graph represents the fair value of the securities held by the pool. The difference in the net asset value and the securities held is due to interest receivables and cash included in the net asset value.

The TFBP distributed $81.3 million in income to participants in 2003, compared to $83.5 million in 2002. Income distributed includes interest, discount/premium, and realized gains/losses.

The TFBP financial statement, which lists the

TFBP Annual Change At June 30

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% Change
Corporate Asset-Backed Bonds	12,255,000	1.1	2,714,047	0.2	9,540,953	351.5
Other Corporate Bonds	611,390,223	53.7	698,922,134	62.1	(87,531,912)	(12.5)
US Mortgage-Backed Bonds	76,290,821	6.7	52,444,484	4.7	23,846,337	45.5
US Government-Backed Bonds	296,636,211	26.0	273,426,729	24.3	23,209,482	8.5
International Bonds (US $)	92,470,191	8.1	74,094,573	6.6	18,375,618	24.8
State/Local Government Bonds	13,884,836	1.2	17,551,079	1.6	(3,666,243)	(20.9)
Total Fixed Income	1,102,927,282	96.8	1,119,153,046	99.5	(16,225,764)	(1.4)
Cash Equivalents (STIP)	36,113,982	3.2	5,984,832	0.5	30,129,149	503.4
Total	1,139,041,264	100.0	1,125,137,879	100.0	13,903,385	1.2

TFBP Book/Fair Values At June 30, 2003

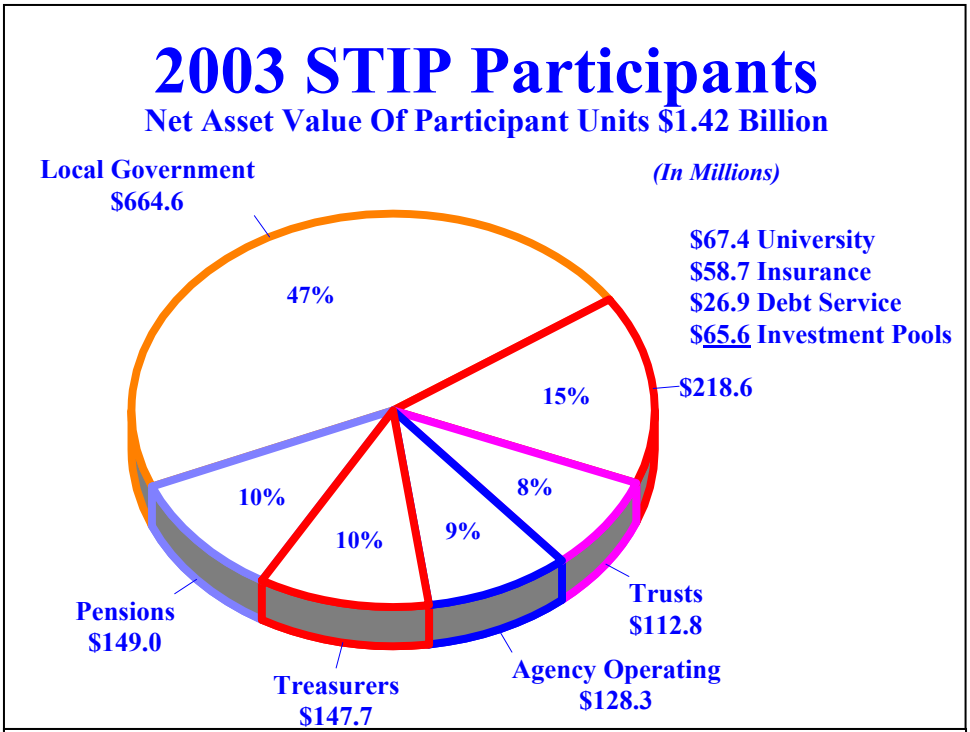
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporate Asset-Backed Bonds	12,255,000	12,255,000	0	1.1	1.0
Other Corporate Bonds	611,390,223	664,571,494	53,181,271	55.4	53.1
US Mortgage-Backed Bonds	76,290,821	79,160,041	2,869,220	6.9	6.3
US Government-Backed Bonds	296,636,211	340,815,409	44,179,199	26.9	27.2
International Bonds (US $)	92,470,191	104,278,410	11,808,218	8.4	8.3
State/Local Government Bonds	13,884,836	13,886,862	2,025	1.3	1.1
Total Fixed Income	1,102,927,282	1,214,967,216	112,039,934	100.0	97.1
Cash Equivalents (STIP)	36,113,982	36,113,982	0		2.9
Total Investments	1,139,041,264	1,251,081,198	112,039,934		100.0

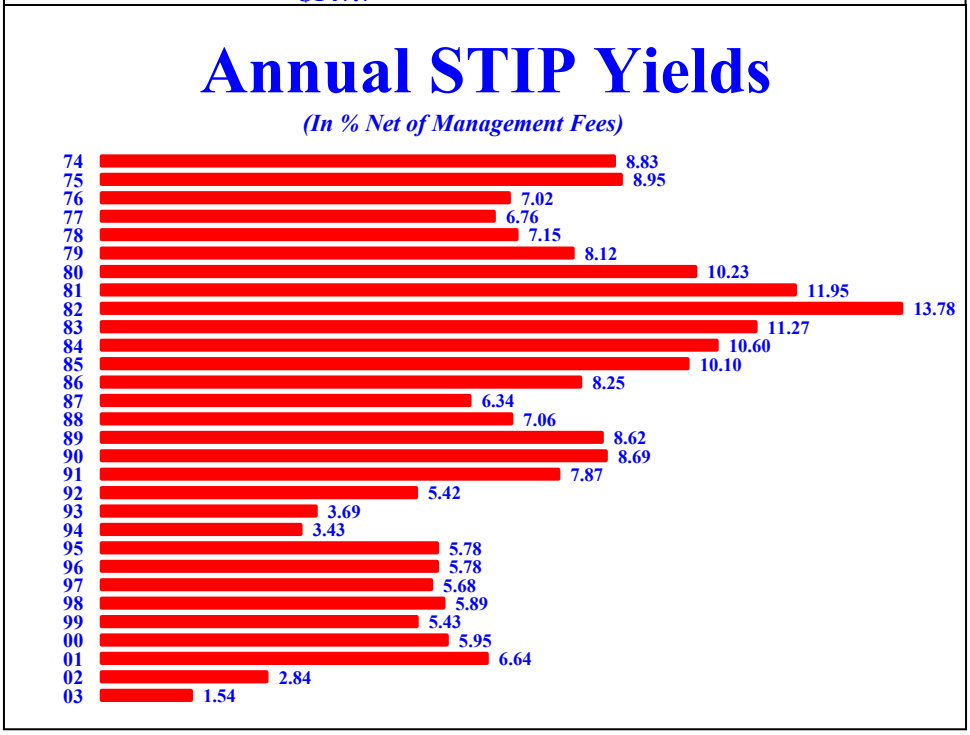
TFBP Total Rates of Returns Versus Benchmark

Year	% Return	Market Index	Index % Return	Return +/- Index
2003	14.47	LB Aggregate Bond	10.41	4.06
3 Year Average	11.96	LB Aggregate Bond	10.08	1.88
5 Year Average	8.07	LB Aggregate Bond	7.54	0.53

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified portfolio, producing a total rate of return exceeding the Lehman Brothers Aggregate Bond Index over a five-year rolling period.
- Above average risk tolerance, especially long-term investment risk.
- Low liquidity requirements, except for investment purposes.
- Securities purchased are investment-grade as per Standard & Poor's or Moody's rating services with maturities not exceeding 40 years.
- Mortgage-backed securities purchased must be backed by the US Government or its agencies.
- All securities must pay in US Dollars.
- Current income is important since it is distributed to participants.





SHORT TERM INVESTMENT POOL (STIP)

The Short Term Investment Pool (STIP), created in 1974, provides participants access to a short-term money market fund. Shares are fixed at $1.00, fractional shares may be purchased, and participants may buy or sell shares with one business day's notice. Income is distributed on the first day of the month.

The upper graph depicts the net asset value of the pool at June. The lower graph shows the historical yield to participants based on distributed income after management and custody fees are deducted.

There were 544 accounts invested in STIP during the year, consisting of 352 state accounts and 192 local government accounts. The STIP distributed $21.3 million to participants in 2003, compared to $47.3 million in 2002.

The STIP financial statement, which lists the individual securities in the portfolio, is shown on Page portfolio is listed on Page B-21 in Appendix B.

The tables on the next page show:

- The changes in Net Asset Value by major participant type,
- The book and fair value of the securities portfolio by major asset type, and
- The securities portfolio's total rate of return.

STIP NAV Annual Change By Participant At June 30

Fund Type	2003 $ NAV (1)	% of Total	2002 $ NAV (1)	% of Total	$ Change	% Change
Local Governments	664,570,962	46.8	761,215,876	50.7	(96,644,915)	(12.7)
Treasurer's Fund	147,708,039	10.4	250,835,002	16.7	(103,126,964)	(41.1)
Pension Funds	149,026,093	10.5	116,578,596	7.8	32,447,497	27.8
Trust Funds	112,820,432	7.9	116,896,161	7.8	(4,075,730)	(3.5)
Agency Operating	128,296,684	9.0	109,251,449	7.3	19,045,234	17.4
University System	67,441,069	4.7	63,555,695	4.2	3,885,374	6.1
Insurance Funds	58,650,654	4.1	44,920,883	3.0	13,729,772	30.6
Investment Pools	65,565,411	4.6	13,408,215	0.9	52,157,196	389.0
Debt Service Funds	26,943,452	1.9	25,575,558	1.7	1,367,894	5.3
Total	1,421,022,795	100.0	1,502,237,435	100.0	(81,214,640)	(5.4)

(1) Net Asset Value

STIP Book/Fair Values At June 30, 2003

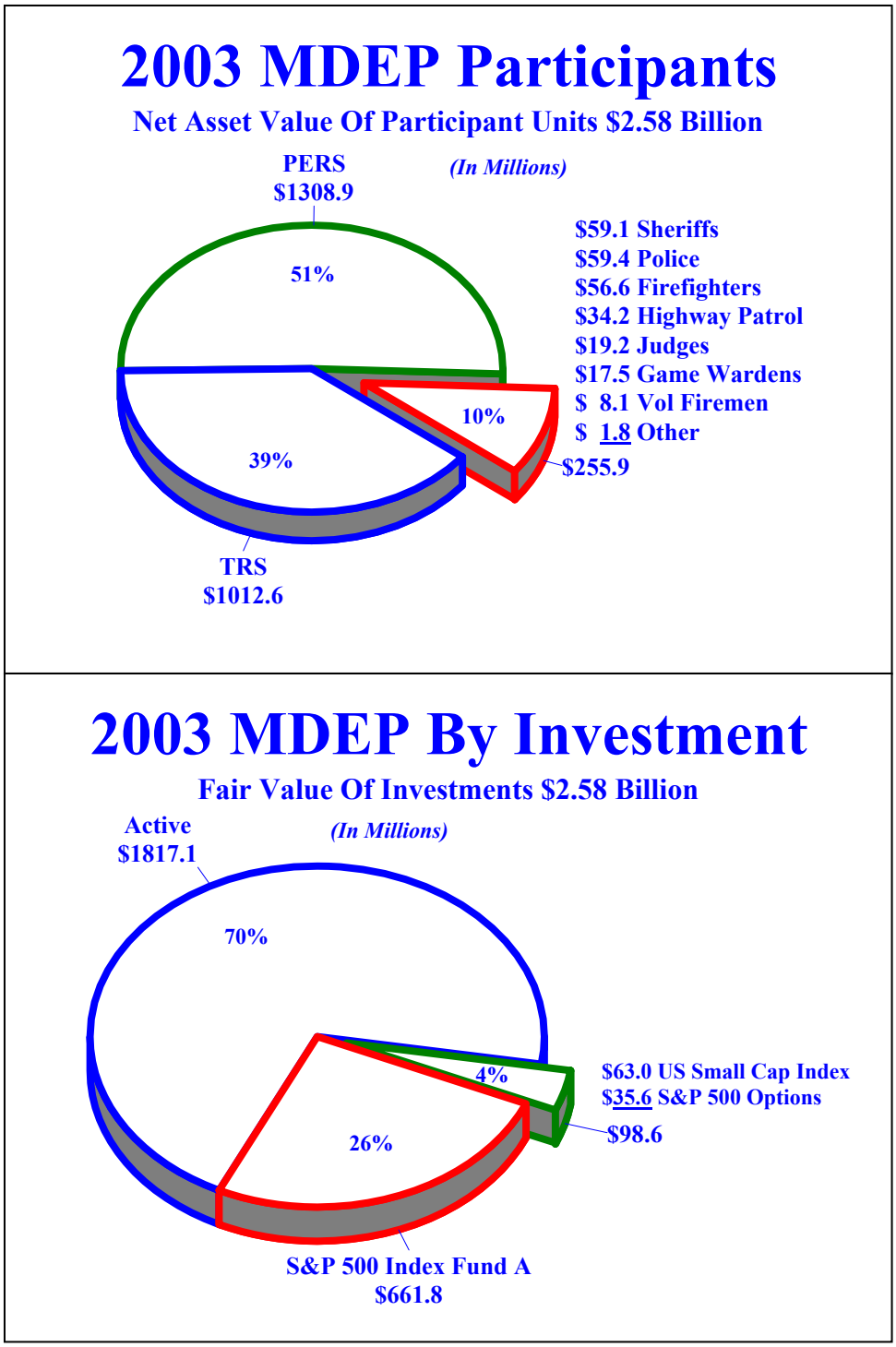
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Variable Rate Notes	631,005,520	630,978,190	(27,330)	44.4	44.4
Asset Backed Securities	733,397,874	733,410,024	12,150	51.6	51.6
Repurchase Agreements	56,000,000	56,000,000	0	3.9	3.9
Total	1,420,403,394	1,420,388,214	(15,180)	100.0	100.0

STIP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2003	1.56	91-Day T Bill x 105%	1.48	0.08
3 Year Average	3.67	91-Day T Bill x 105%	3.31	0.36
5 Year Average	4.49	91-Day T Bill x 105%	4.08	0.41
10 Year Average	4.92	91-Day T Bill x 105%	4.62	0.30

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified money market fund, producing a total rate of return 105 percent of the 91-Day US Treasury Bill.
- Highly liquid portfolio.
- Maximum security maturity of 397 days.
- Participants include state agencies, local governments and school districts.
- Risk tolerance is low.



MONTANA DOMESTIC EQUITY POOL (MDEP)

The Montana Domestic Equity Pool (MDEP) was created in May 1, 2003, when all investments held in the Montana Common Stock Pool, the Standard and Poor's 500 Index Fund A and the Dimensional Fund Advisors US Small Cap Index were combined to create the pool.

The upper graph shows the net asset of the pool at June 30. The lower graph shows the fair value of investments held by active and passive management.

The MDEP distributed $28.9 million to participants in 2003, compared to $27.5 million in 2002. Income distributed includes only dividends. All realized capital gains and losses are retained in the pool.

The MDEP financial statement, which lists the individual securities in the portfolio, is shown on Page B – 27 in Appendix B.

The tables on the following pages show:

- The 10-largest holdings in the actively-managed portfolio,
- Changes in the fair value of the securities portfolio by sector,
- The book value and fair value of the securities portfolio, and
- The active-managed securities portfolio's total rate of return.

Montana Common Stock Pool 10 Largest Holdings as of June 30, 2003

Company	Shares	Fair $ Value	% of MTCP
Pfizer Inc.	2,107,260	71,962,929	2.8
Microsoft Corporation	2,780,000	71,195,800	2.8
General Electric Corporation	2,272,300	65,169,564	2.5
Citigroup Inc.	1,483,866	63,509,465	2.5
Exxon Mobil Corporation	1,462,912	52,533,170	2.0
Wal Mart Stores Inc.	800,000	42,936,000	1.7
Johnson + Johnson	822,000	42,497,400	1.6
American Intl Group Inc	693,750	38,281,125	1.5
Verizon Communications	953,308	37,608,001	1.5
Wells Fargo + Company	700,000	35,280,000	1.4
Total Ten Largest Holdings	14,075,396	520,973,454	20.2
Total MTCP		2,577,470,669	

MDEP Sector and Active\Passive Management Change At June 30

Sector	2003 $ Fair Value	% of Total	2002 $ Fair Value	% of Total	$ Change	% Change
S & P 500 Index (Passive)(1)	661,781,844	25.7	361,722,926	16.1	300,058,918	83.0
Financials	413,321,807	16.0	383,418,228	17.1	29,903,579	7.8
Health Care	295,473,178	11.5	326,635,074	14.6	(31,161,896)	(9.5)
Information Technology	291,260,059	11.3	305,080,354	13.6	(13,820,296)	(4.5)
Consumer Discretionary	247,395,875	9.6	239,956,853	10.7	7,439,022	3.1
Industrials	213,718,282	8.3	212,013,372	9.4	1,704,910	0.8
Energy	118,491,880	4.6	178,863,070	8.0	(60,371,190)	(33.8)
Consumer Staples	115,635,988	4.5	98,690,128	4.4	16,945,860	17.2
Telecommunication Services	67,047,393	2.6	73,602,116	3.3	(6,554,724)	(8.9)
US Small Cap Index (Passive)	62,981,234	2.4	0	0.0	62,981,234	NA
Materials	54,726,900	2.1	43,983,560	2.0	10,743,340	24.4
S & P 500 Futures	35,621,710	1.4	5,869,087	0.3	29,752,624	506.9
Short Term Investment Pool	14,520	0.0	0	0.0	14,520	NA
Utilities	0	0.0	14,942,250	0.7	(14,942,250)	(100.0)
Total	2,577,470,669	100.0	2,244,777,019	100.0	332,693,650	14.8

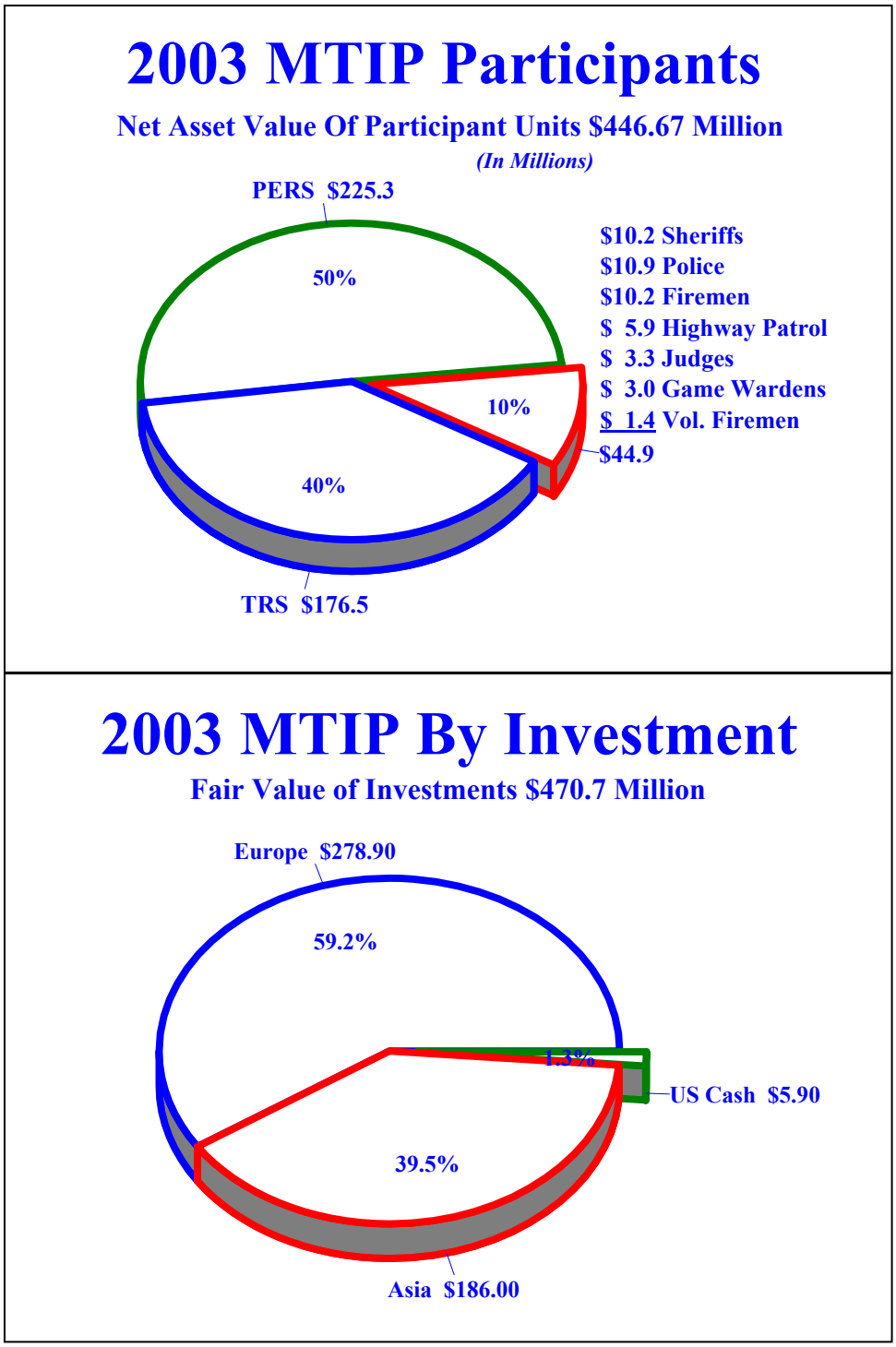
(1) These investments were transferred into the MDEP during 2003. 2002 is adjusted for comparison.

MDEP Book/Fair Values At June 30, 2003

Sector	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
S & P 500 Index (Passive)	710,000,000	661,781,844	(48,218,156)	28.7	25.7
Financials	349,562,148	413,321,807	63,759,659	14.1	16.0
Health Care	239,960,502	295,473,178	55,512,676	9.7	11.5
Information Technology	321,862,310	291,260,059	(30,602,251)	13.0	11.3
Consumer Discretionary	256,369,590	247,395,875	(8,973,715)	10.4	9.6
Industrials	162,457,864	213,718,282	51,260,418	6.6	8.3
Energy	105,860,368	118,491,880	12,631,512	4.3	4.6
Consumer Staples	117,313,992	115,635,988	(1,678,004)	4.7	4.5
Telecommunication Services	62,153,171	67,047,393	4,894,222	2.5	2.6
US Small Cap Index (Passive)	55,000,000	62,981,234	7,981,234	2.2	2.4
Materials	59,730,898	54,726,900	(5,003,998)	2.4	2.1
S & P 500 Futures	34,575,711	35,621,710	1,045,999	1.4	1.4
Short Term Investment Pool	14,520	14,520	0	0.0	0.0
Total	2,474,861,073	2,577,470,669	102,609,596	100.0	100.0

Montana Common Stock Pool Total Rates of Returns Versus Benchmark				
Year	% Return	Market Index	Index % Return	Return +/- Index
2003	2.42	S & P 500	0.25	2.17
3 Year Average	(12.15)	S & P 500	(11.19)	(0.96)
5 Year Average	(2.15)	S & P 500	(1.61)	(0.54)
10 Year Average	9.17	S & P 500	10.03	(0.86)

The returns shown above include only the active stock portfolio managed internally by Board Staff.



MONTANA INTERNATIONAL STOCK POOL (MTIP)

The Montana International Equity Pool (MTIP) was created during 1997 when the nine pension funds purchased pool shares to fund investments in international stock. Cash dividends, interest and related income currency gains/losses are distributed monthly.

The upper graph depicts the net asset value of the pool at June 30. The lower graph shows the fair value of the securities held by the pool by region.

The difference between the net asset value of the pool and the fair value of investments held is due to investments purchased but not yet paid for. Net asset value is reduced by the payable due for the purchase.

The MTIP distributed $8.5 million to participants in 2003, compared to $6.5 million in 2002. The MTIP financial statement, which lists the individual securities in the portfolio, is shown on Page B–36 in Appendix B.

The tables on the following pages show:

- The investment managers and the fair value of their securities portfolios,
- The changes in securities fair value by country,
- The book and fair values of securities portfolios by country, and
- The total rates of return by actively-managed securities portfolio.

Manager	Fair Value $
Internal Actively-Managed Europe	132,270,563
Pyrford Actively-Managed Europe	109,475,945
Schroder Actively-Managed Asia	113,041,041
SG Actively Managed Asia	74,847,509
Barclay MSCI Europe Passively-Managed Equity Index	41,094,723
Total International Portfolios	470,729,781

MTIP Annual Change At June 30

Country	2003 $ Fair Value	% of Total	2002 $ Fair Value	% of Total	$ Change	% Change
Japan	85,584,102	18.2	90,508,297	21.1	(4,924,194)	(5.4)
United Kingdom	83,482,934	17.7	65,766,412	15.3	17,716,522	26.9
Switzerland	44,757,513	9.5	40,051,565	9.3	4,705,948	11.7
MSCI Europe Equity Index	41,094,723	8.7	0	0.0	41,094,723	NA
Australia	38,909,064	8.3	30,052,758	7.0	8,856,306	29.5
Netherlands	33,911,765	7.2	35,175,289	8.2	(1,263,524)	(3.6)
Spain	22,021,357	4.7	16,620,277	3.9	5,401,080	32.5
Germany	19,818,211	4.2	12,950,810	3.0	6,867,401	53.0
China/Hong Kong	19,047,814	4.0	24,796,563	5.8	(5,748,749)	(23.2)
Korea	18,088,365	3.8	24,738,628	5.8	(6,650,263)	(26.9)
France	14,658,656	3.1	38,162,562	8.9	(23,503,907)	(61.6)
Singapore	7,151,026	1.5	7,643,010	1.8	(491,984)	(6.4)
Belgium	6,022,399	1.3	3,916,367	0.9	2,106,033	53.8
Ireland	5,738,469	1.2	3,373,598	0.8	2,364,871	70.1
Taiwan	5,560,771	1.2	5,306,956	1.2	253,815	4.8
Finland	5,083,185	1.1	5,572,099	1.3	(488,914)	(8.8)
Malaysia	4,847,600	1.0	5,665,888	1.3	(818,288)	(14.4)
Thailand	2,277,101	0.5	1,653,377	0.4	623,725	37.7
Indonesia	2,152,521	0.5	1,507,708	0.4	644,814	42.8
Sweden	2,147,109	0.5	1,436,315	0.3	710,794	49.5
Italy	1,734,582	0.4	477,023	0.1	1,257,559	263.6
New Zealand	751,294	0.2	0	0.0	751,294	NA
Greece	0	0.0	2,844,360	0.7	(2,844,360)	(100.0)
Denmark	0	0.0	1,324,172	0.3	(1,324,172)	(100.0)
Phillipines	0	0.0	484,022	0.1	(484,022)	(100.0)
US $ Cash	5,887,216	1.3	9,577,648	2.2	(3,690,432)	(38.5)
United Kingdom Fixed Income	2,004	0.0	0	0.0	2,004	NA
Total	$470,729,781	100.0	$429,605,702	100.0	41,124,079	9.6

MTIP Book/Fair Values At June 30, 2003

Country	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Japan	100,874,643	85,584,102	(15,290,541)	20.6	18.2
United Kingdom	89,513,324	83,482,934	(6,030,390)	18.3	17.7
Switzerland	44,877,976	44,757,513	(120,464)	9.2	9.5
MSCI Europe Equity Index	40,000,000	41,094,723	1,094,723	8.2	8.7
Australia	35,023,970	38,909,064	3,885,094	7.2	8.3
Netherlands	44,267,149	33,911,765	(10,355,384)	9.0	7.2
Spain	21,767,874	22,021,357	253,483	4.4	4.7
Germany	18,289,728	19,818,211	1,528,483	3.7	4.2
China/Hong Kong	19,261,254	19,047,814	(213,440)	3.9	4.0
Korea	14,027,566	18,088,365	4,060,799	2.9	3.8
France	14,719,470	14,658,656	(60,815)	3.0	3.1
Singapore	7,416,702	7,151,026	(265,676)	1.5	1.5
Belgium	5,860,063	6,022,399	162,337	1.2	1.3
Ireland	5,073,594	5,738,469	664,876	1.0	1.2
Taiwan	5,252,725	5,560,771	308,046	1.1	1.2
Finland	5,521,433	5,083,185	(438,248)	1.1	1.1
Malaysia	4,262,337	4,847,600	585,263	0.9	1.0
Thailand	1,823,068	2,277,101	454,033	0.4	0.5
Indonesia	1,630,712	2,152,521	521,809	0.3	0.5
Sweden	1,953,892	2,147,109	193,217	0.4	0.5
Italy	1,518,804	1,734,582	215,778	0.3	0.4
New Zealand	549,757	751,294	201,537	0.1	0.2
US $ Cash	5,887,216	5,887,216	0	1.2	1.3
United Kingdom Fixed Income	10,141	2,004	(8,137)	0.0	0.0
Total	489,383,398	470,729,781	(18,653,617)	100.0	100.0

MTIP 2003 Total Rates of Returns By Active Manager Versus Benchmarks

Manager	% Return	Market Index	Index % Return	Return +/- Index
Schroder Capital Management	(5.57)	Montana Custom Pacific	(6.03)	0.46
SG Yamaichi Asset Management	(7.35)	Montana Custom Pacific	(6.03)	(1.32)
Pyrford International	(7.36)	MSCI Europe	(4.80)	(2.56)
Internal International	(4.95)	MSCI Europe (1)	(5.00)	0.05
All International	(6.07)	MSCI EAFE	(6.06)	(0.01)

MTIP Annual Average Total Rates Returns By Active Manager From Inception (1)

Manager	% Return	Market Index	Index % Return	Return +/- Index
Schroder Capital Management	4.44	Montana Custom Pacific	1.17	3.27
SG Pacific Asset Management	1.03	Montana Custom Pacific	1.17	(0.14)
Pyrford International	(3.61)	MSCI Europe	(11.51)	7.90
Internal International	(1.08)	MSCI Europe	(4.48)	3.40

MONTANA PRIVATE EQUITY POOL (MPEP) The Montana Private Equity Pool was created on May 1, 2002 when all private equity investments held by the nine pension funds were transferred to the pool. Each pension fund received shares in the pool equal to the fair value of their private equity investments and also transferred cash to the pool to provide for investment purposes. The MPEP financial statement, which lists the portfolio, is shown on Page B-49 in Appendix B.

MPEP Participant Change At June 30

Fund	2003 $ NAV	% of Total	2002 $ NAV	% of Total	$ Change	% Change
Public Employees	150,960,074	50.6	95,926,866	51.0	55,033,208	57.4
Teachers	117,596,980	39.4	74,288,382	39.5	43,308,598	58.3
Police	6,975,233	2.3	4,167,039	2.2	2,808,194	67.4
Sheriffs	6,906,435	2.3	4,167,040	2.2	2,739,395	65.7
Firefighters	6,545,922	2.2	3,928,688	2.1	2,617,234	66.6
Highway Patrol	3,932,967	1.3	2,467,949	1.3	1,465,018	59.4
Judges	2,242,927	0.8	1,353,151	0.7	889,776	65.8
Game Wardens	2,058,250	0.7	1,114,798	0.6	943,453	84.6
Vol. Firefighters	968,788	0.3	627,885	0.3	340,903	54.3
Total Investments	298,187,576	100.0	188,041,797	100.0	110,145,778	58.6

MPEP Change At June 30 by Manager

Manager/Investment Type	2003 $ Fair Value	% of Total	2002 $ Fair Value	% of Total	$ Change	% Change
Adams Street Partners	55,633,107	18.2	48,044,833	24.3	7,588,274	15.8
Kolberg Kravis & Roberts	103,077,952	33.8	115,805,231	58.7	(12,727,279)	(11.0)
Madison Dearborn Capital	3,892,190	1.3	858,233	0.4	3,033,957	353.5
Welsh Carson Anderson&Stowe	11,443,301	3.7	5,900,905	3.0	5,542,396	93.9
Lexington Capital	9,241,177	3.0	4,896,324	2.5	4,344,853	88.7
Oaktree Capital	97,022,629	31.8	0	0.0	97,022,629	NA
S & P 500 Futures	25,039,507	8.2	21,846,093	11.1	3,193,414	14.6
Total Investments	305,349,864	100.0	197,351,619	100.0	107,998,245	54.7

MPEP Book/Fair Values At June 30, 2003 by Manager

Manager/Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Adams Street Partners	73,947,421	55,633,107	(18,314,314)	26.5	18.2
Kolberg Kravis & Roberts	98,233,491	103,077,952	4,844,461	35.2	33.8
Madison Dearborn Capital	4,364,005	3,892,190	(471,815)	1.6	1.3
Welsh Carson Anderson&Stowe	10,538,031	11,443,301	905,270	3.8	3.7
Lexington Capital	7,734,562	9,241,177	1,506,615	2.8	3.0
Oaktree Capital	59,184,066	97,022,629	37,838,563	21.2	31.8
S & P 500 Futures	24,788,747	25,039,507	250,760	8.9	8.2
Total Investments	278,790,323	305,349,864	26,559,540	100.0	100.0

MPEP Total Rates of Returns Versus Benchmark

Year	% Return	Market Index	Index % Return	Return +/- Index
2003	4.69	Private Equity Benchmark	15.00	(10.31)

Private equity investments are participations in non-publicly traded equity ownership of a fund or operating company either directly or more commonly through a partnership. As of June 30, 2003, six private equity managers invested the pool's assets.

Adams Street Partners – A fund-of-fund investment manager, formerly, Brinson Partners offers a wide range of private equity capital investment alternatives.

Kolberg, Kravis & Roberts - A global leveraged-buyout firm organized in 1975 that seeks investment opportunities in a wide-range of industries.

Madison-Dearborn Partners - A private equity investment firm, founded in 1992 by the Principals of First Chicago Venture capital, that seeks growth equity transactions and management buyout opportunities in a wide range of industries.

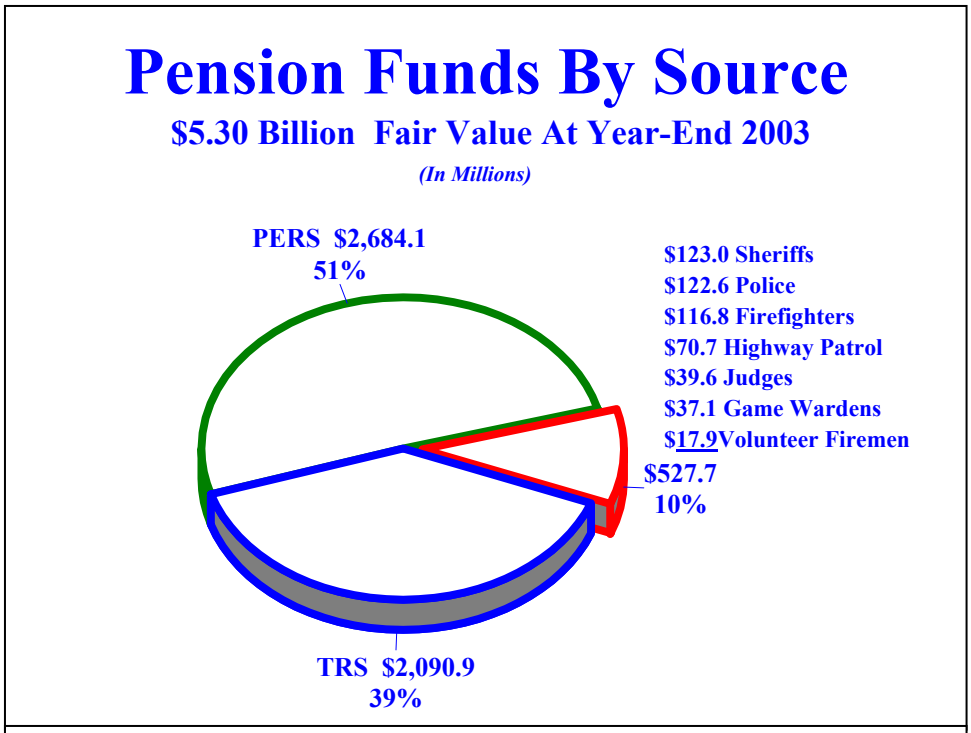
Welsh Carson Anderson Stowe - A leveraged-buyout firm founded in 1979 focused on information services, communications and healthcare industries.

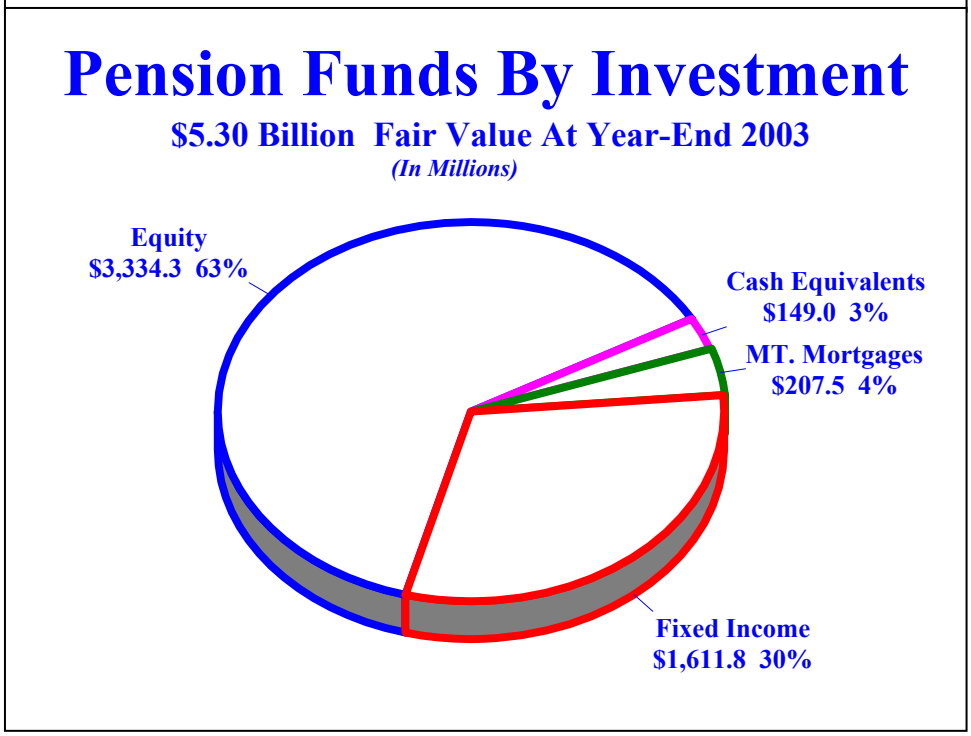
Lexington Partners - A global private equity firm, founded in 1994, specializing in secondary investments that provide liquidity to owners of domestic and international private equity limited partnerships. The firm also co-investments with other private equity sponsors and invests in newly-formed private equity partnerships.

Oaktree Capital Management – One of the oldest, largest, and most respected firms investing in distressed debt, high yield, and convertible securities markets. The Board invested $75.0 million with the firm in September 2002.

The types of investments made by private equity managers generally fall into the following categories:

Private Equity – Private equity investments in funds or operating companies in an asset class other than cash, stocks, or fixed income securities and real estate.
Venture Capital – Equity or equity-like investments in companies that have undeveloped or developing products or revenue.
Leveraged Buy-Outs – Equity investments in public or private companies that purchase a significant portion or majority control of the company.
Mezzanine – Investments in the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options.
Special Situations – Includes: 1) investments in the exploration for oil and/or gas reserves or in the development of proven reserves; 2) investments in land to harvest timber; and 3) investments that have a special component usually related to geographical, economic, or social issues sometimes referred to as Economically Targeted Investments.
Secondary Investments – Investments in a previously-owned limited partnership or investment in previously owned limited partnership via a secondary fund.
Distressed Debt – Public and private debt of companies that appear unlikely to meet their financial obligations but are attractive to investors, not for repayment of interest and principal which are unlikely to be paid, but for the claim placed on the firm's value by unpaid creditors.





PENSION FUNDS

The upper Graph depicts the state's nine pension fund investment portfolios at fair value as of June 30.

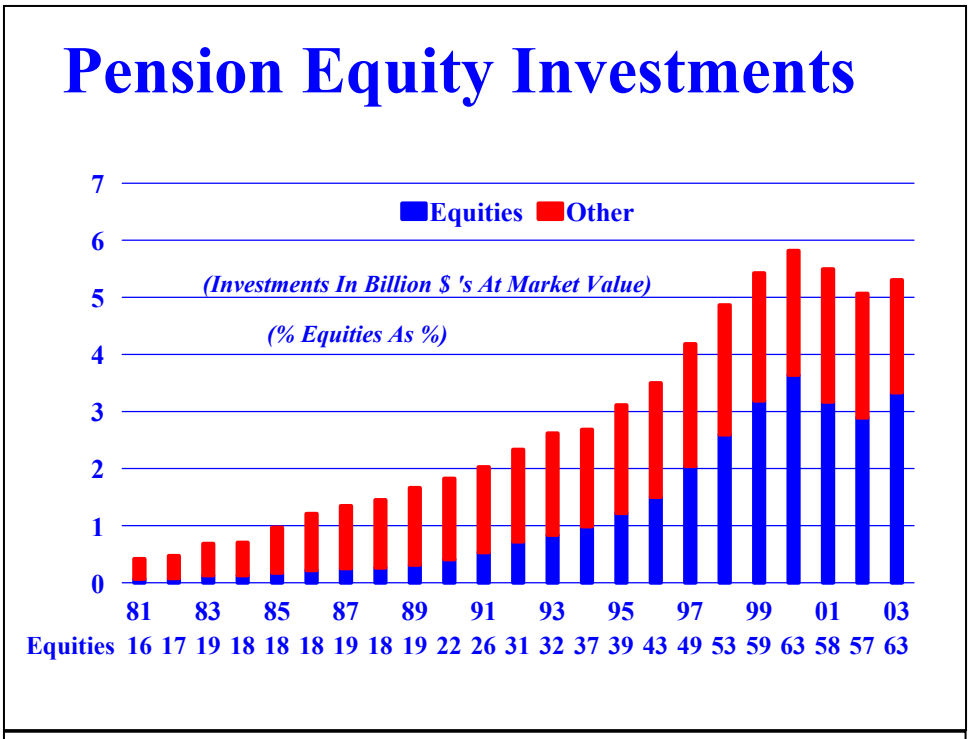
The lower graph depicts total pension fund investments by major investment type.

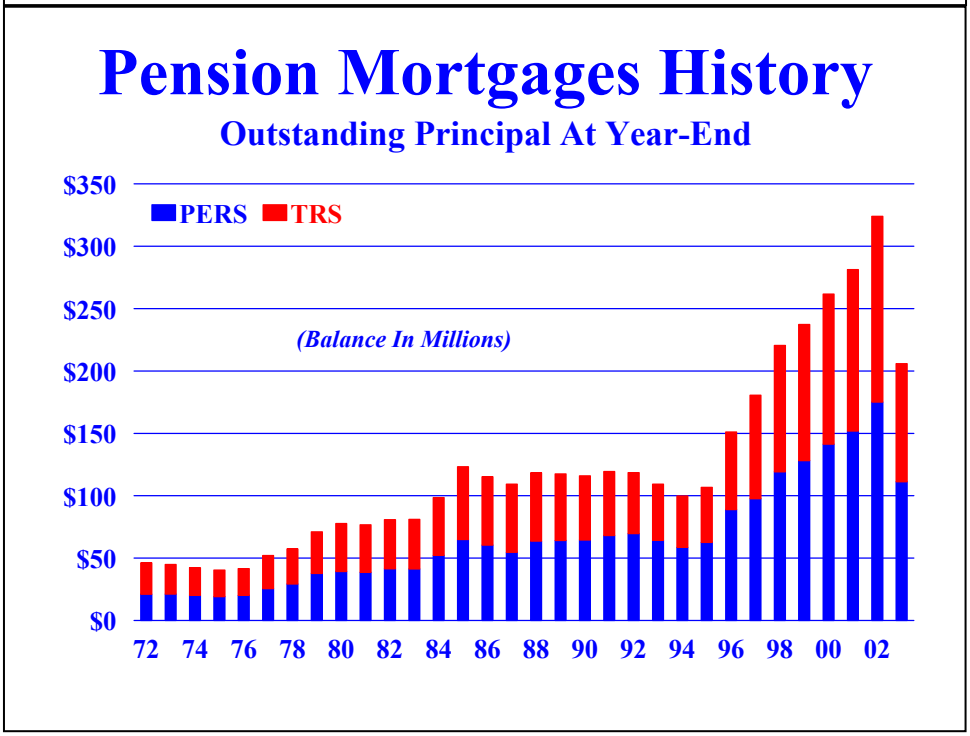
By law, all public pension funds in the state, including local governments and school districts, are managed by the state. The Board of Investments manages all pension fund investments. Pension fund operations are administered by two boards appointed by the Governor.

The Teachers' Retirement Board manages the Teachers' Retirement System, while the Public Employee Retirement Board manages the other eight systems.

As of June 30 approximately 96 percent of pension fund investments at fair value were managed in various investment pools created by the Board. These pools, which operate similar to mutual funds, simplify investing and accounting, and provide broader diversification for the smaller funds. Income is distributed monthly to pool participants.

The pension funds earned $232.2 million on their investments in 2003, compared to $221.6 million in 2002. The total rate of return of each fund is shown in the individual pensions that follow.





The Board has increased pension investments in equities in recent years to increase the total rate of return. The current target is 65 percent of the fair value of pension investments.

The equity component of pension fund investments reached 63 percent at the end of fiscal 2002 prior to the decline in equity markets. The steep drop in equity prices reduced the equity allocation 57 percent in 2002.

Declining equity prices reduced fair value of total pension fund investments from $5.82 billion in 2000 to $5.07 billion in 2002 as shown in the graph above.

During this period the Board actively sold fixed-income investments and invested the sale proceeds in the equity markets.

As a result of this rebalancing and a slight upward movement of the domestic equity markets pension fund equity investments once again reached 63 percent of total pension fund investments.

The Board has also significantly increased pension investments in Montana mortgages. Mortgage investments increased from $106.7 million in 1995 to $324.0 million in 2002 as shown in the lower graph. However, mortgage rates on the secondary market declined to less than 6 percent during 2003 and the Board declined to purchase mortgages for the pension funds at these rates. This policy, combined with heavy mortgage refinancings of mortgages in the portfolio caused a significant drop in the pension mortgage portfolio to $205.9 million at year-end 2003.

Pension Funds Annual Book Value Change At June 30

Fund	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% of Change
Public Employees	2,146,087,982	50.5	2,074,850,102	50.5	71,237,880	3.4
Teachers	1,658,788,831	39.0	1,616,829,791	39.3	41,959,040	2.6
Police	104,095,801	2.4	97,422,226	2.4	6,673,575	6.9
Sheriffs	103,873,483	2.4	98,679,161	2.4	5,194,322	5.3
Firefighters	100,204,442	2.4	93,859,432	2.3	6,345,010	6.8
Highway Patrol	57,427,404	1.4	55,405,527	1.3	2,021,877	3.6
Judges	32,164,120	0.8	30,653,917	0.7	1,510,203	4.9
Game Wardens	31,138,043	0.7	27,539,613	0.7	3,598,430	13.1
Volunteer Firefighters	16,374,385	0.4	15,911,022	0.4	463,363	2.9
Total	4,250,154,490	100.0	4,111,150,791	100.0	139,003,700	3.4
Investment Type						
Fixed Income (RFBP)	1,467,080,898	34.5	1,680,563,873	40.9	(213,482,975)	(12.7)
Equities	2,428,186,289	57.1	1,989,970,365	48.4	438,215,925	22.0
Cash Equivalents (STIP)	149,026,093	3.5	116,578,596	2.8	32,447,497	27.8
Montana Mortgages	205,861,209	4.8	324,037,957	7.9	(118,176,748)	(36.5)
Total	4,250,154,490	100.0	4,111,150,791	100.0	139,003,700	3.4

Pension Funds Annual Fair Value Change At June 30

Fund	2003 $ Fair Value	% of Total	2002 $ Fair Value	% of Total	$ Change	% of Change
Public Employees	2,684,105,984	50.6	2,559,675,163	50.5	124,430,821	4.9
Teachers	2,090,916,007	39.4	2,018,291,461	39.8	72,624,546	3.6
Police	122,556,699	2.3	112,566,879	2.2	9,989,820	8.9
Sheriffs	123,040,202	2.3	114,887,953	2.3	8,152,249	7.1
Firefighters	116,816,914	2.2	107,336,318	2.1	9,480,596	8.8
Highway Patrol	70,686,225	1.3	67,412,620	1.3	3,273,606	4.9
Judges	39,581,744	0.7	37,174,463	0.7	2,407,281	6.5
Game Wardens	37,141,780	0.7	32,364,275	0.6	4,777,505	14.8
Volunteer Firefighters	17,859,889	0.3	16,831,639	0.3	1,028,250	6.1
Total	5,302,705,445	100.0	5,066,540,771	100.0	236,164,674	4.7
Investment Type						
Fixed Income (RFBP)	1,611,806,279	30.4	1,725,096,997	34.0	(113,290,717)	(6.6)
Equities	3,334,325,338	62.9	2,894,427,562	57.1	439,897,776	15.2
Cash Equivalents (STIP)	149,026,093	2.8	116,578,596	2.3	32,447,497	27.8
Montana Mortgages	207,547,735	3.9	330,437,617	6.5	(122,889,882)	(37.2)
Total	5,302,705,445	100.0	5,066,540,771	100.0	236,164,674	4.7

Pension Funds Income

Fund	2003 $ Income	% Of Total	2002 $ Income	% Of Total	$ Change	% Change
Public Employees	114,127,866	49.1	107,865,330	48.7	6,262,537	5.8
Teachers	95,580,408	41.2	93,575,646	42.2	2,004,762	2.1
Other Pensions	22,528,812	9.7	20,180,190	9.1	2,348,621	11.6
Total Pension Income	232,237,086	100.0	221,621,166	100.0	10,615,920	4.8

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

PERS Annual Book Value Change At June 30

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	731,895,210	34.1	835,921,405	40.3	(104,026,195)	(12.4)
Domestic Stock Pool	817,714,921	38.1	664,571,026	32.0	153,143,895	23.0
International Stock Pool	264,115,000	12.3	237,605,000	11.5	26,510,000	11.2
Montana Private Equity Pool	139,074,357	6.5	89,730,523	4.3	49,343,834	55.0
Equity Real Estate	7,000,637	0.3	6,697,524	0.3	303,112	4.5
Total Equity	1,227,904,915	57.2	998,604,073	48.1	229,300,842	23.0
Montana Mortgages	111,167,801	5.2	174,985,989	8.4	(63,818,188)	(36.5)
Cash Equivalents (STIP)	75,120,056	3.5	65,338,635	3.1	9,781,421	15.0
Total	2,146,087,982	100.0	2,074,850,102	100.0	71,237,880	3.4

PERS Annual Fair Value Change At June 30

Investment Type	2003 $ Fair Value	% of Total	2002 $ Fair Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	804,470,236	30.0	858,466,949	33.5	(53,996,713)	(6.3)
Domestic Stock Pool	1,308,883,763	48.8	1,138,867,349	44.5	170,016,414	14.9
International Stock Pool	225,346,965	8.4	215,598,195	8.4	9,748,770	4.5
Montana Private Equity Pool	150,960,091	5.6	95,926,866	3.7	55,033,225	57.4
Equity Real Estate	7,246,333	0.3	7,035,303	0.3	211,031	3.0
Total Equity	1,692,437,152	63.1	1,457,427,713	56.9	235,009,439	16.1
Montana Mortgages	112,078,541	4.2	178,441,866	7.0	(66,363,326)	(37.2)
Cash Equivalents (STIP)	75,120,056	2.8	65,338,635	2.6	9,781,421	15.0
Total	2,684,105,984	100.0	2,559,675,163	100.0	124,430,821	4.9

PERS Book/Fair Values At June 30, 2003

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Fixed	% of Fair
Fixed Income (RFBP)	731,895,210	804,470,236	72,575,026	34.1	30.0
Domestic Stock Pool	817,714,921	1,308,883,763	491,168,842	38.1	48.8
International Stock Pool	264,115,000	225,346,965	(38,768,035)	12.3	8.4
Montana Private Equity Pool	139,074,357	150,960,091	11,885,734	6.5	5.6
Equity Real Estate	7,000,637	7,246,333	245,696	0.3	0.3
Total Equity	1,227,904,915	1,692,437,152	464,532,238	57.2	63.1
Montana Mortgages	111,167,801	112,078,541	910,739	5.2	4.2
Cash Equivalents (STIP)	75,120,056	75,120,056	0	3.5	2.8
Total	2,146,087,982	2,684,105,984	538,018,003	100.0	100.0

Public Employees Retirement Fund Net Income By Source

Income Type	2003 $ Income	% Of Total	2002 $ Income	% Of Total	$ Change	% Change
Retirement Funds Bond Pool	66,006,557	56.2	63,763,627	57.1	2,242,929	3.5
Domestic Stock Pool	15,088,147	12.8	14,300,566	12.8	787,581	5.5
Gain on Sale of Pool Units	11,065,819	9.4	2,510,297	2.2	8,555,522	340.8
Montana Mortgages	9,939,299	8.5	11,629,390	10.4	(1,690,091)	(14.5)
Montana Private Equity Pool	8,799,916	7.5	12,592,851	11.3	(3,792,934)	NA
International Stock Pool	5,186,706	4.4	4,177,616	3.7	1,009,090	24.2
Short Term Investment Pool	845,684	0.7	2,159,886	1.9	(1,314,202)	(60.8)
Equity Real Estate	597,943	0.5	515,916	0.5	82,027	15.9
Total Gross Income	117,530,071	100.0	111,650,150	100.0	5,879,921	5.3
Board Management Fees (1)	(717,537)		(973,730)		256,194	(26.3)
Custodial Bank Fees	(259,536)		(319,982)		60,446	(18.9)
External Manager Fees	(2,425,132)		(2,491,108)		65,976	(2.6)
Total Net Income	114,127,866		107,865,330		6,262,537	5.8

(1) FY 2003 Board Management Fees for PERS were 3 Basis Points of the Managed Portfolios Fair Value

PERS 2003 Total Rates of Returns By Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	1.54	91-Day T Bill	1.41	0.13
Domestic Stock Pool	2.14	S & P 500 Large Cap	0.25	1.89
Schroder Capital Management	(5.57)	Montana Custom Pacific	(6.03)	0.46
SG Yamaichi Asset Management	(7.35)	Montana Custom Pacific	(6.03)	(1.32)
Pyrford International	(7.36)	MSCI Europe	(4.80)	(2.56)
Internal International	(4.95)	MSCI Europe	(4.80)	(0.15)
Private Equity Pool	5.15	Montana Custom Index	15.00	(9.85)
Fixed Income (RFBP)	15.88	LB Aggregate Bond	10.41	5.47
Montana Mortgages	4.93	NA		
Equity Real Estate	6.54	NA		
All Assets	6.61	Composite (1)	4.95	1.66

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

PERS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return +/- Benchmark
2003	6.61	PERS Composite	4.95	1.66
3 Year Average	(2.07)	PERS Composite	(1.76)	(0.31)
5 Year Average	2.60	PERS Composite	2.63	(0.03)
9 Year Average	8.47	PERS Composite	8.63	(0.16)

(1) An Index Composite Parallelling the Fund's Asset Allocation At Fair Value

PERS invested balances and income history are shown on Page A-17 in Appendix A

TEACHERS' RETIREMENT SYSTEM FUND (TRS)

TRS Annual Book Value Change At June 30

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	562,952,977	33.9	649,673,667	40.2	(86,720,690)	(13.3)
Domestic Stock Pool	617,785,381	37.2	514,326,703	31.8	103,458,678	20.1
International Stock Pool	206,615,000	12.5	188,895,000	11.7	17,720,000	9.4
Montana Private Equity Pool	108,040,836	6.5	69,082,406	4.3	38,958,430	56.4
Equity Real Estate	6,511,449	0.4	6,368,816	0.4	142,633	2.2
Total Equity	938,952,666	56.6	778,672,926	48.2	160,279,741	20.6
Montana Mortgages	94,693,408	5.7	149,051,968	9.2	(54,358,560)	(36.5)
Cash Equivalents (STIP)	62,189,780	3.7	39,431,230	2.4	22,758,549	57.7
Total	1,658,788,831	100.0	1,616,829,791	100.0	41,959,040	2.6

TRS Annual Fair Value Change At June 30

Investment Type	2003 $ Fair Value	% of Total	2002 $ Fair Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	619,958,842	29.7	668,471,752	33.1	(48,512,910)	(7.3)
Domestic Stock Pool	1,012,570,271	48.4	905,013,976	44.8	107,556,295	11.9
International Stock Pool	176,450,020	8.4	172,525,068	8.5	3,924,952	2.3
Montana Private Equity Pool	117,596,980	5.6	74,288,382	3.7	43,308,598	58.3
Equity Real Estate	6,680,920	0.3	6,565,303	0.3	115,618	1.8
Total Equity	1,313,298,191	62.8	1,158,392,728	57.4	154,905,463	13.4
Montana Mortgages	95,469,194	4.6	151,995,751	7.5	(56,526,557)	(37.2)
Cash Equivalents (STIP)	62,189,780	3.0	39,431,230	2.0	22,758,549	57.7
Total	2,090,916,007	100.0	2,018,291,461	100.0	72,624,546	3.6

TRS Book/Fair Values At June 30, 2003

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Fixed	% of Fair
Fixed Income (RFBP)	562,952,977	619,958,842	57,005,865	33.9	29.7
Domestic Stock Pool	617,785,381	1,012,570,271	394,784,890	37.2	48.4
International Stock Pool	206,615,000	176,450,020	(30,164,980)	12.5	8.4
Montana Private Equity Pool	108,040,836	117,596,980	9,556,144	6.5	5.6
Equity Real Estate	6,511,449	6,680,920	169,471	0.4	0.3
Total Equity	938,952,666	1,313,298,191	374,345,525	56.6	62.8
Montana Mortgages	94,693,408	95,469,194	775,786	5.7	4.6
Cash Equivalents (STIP)	62,189,780	62,189,780	0	3.7	3.0
Total	1,658,788,831	2,090,916,007	432,127,176	100.0	100.0

Teachers' Retirement Fund Net Income By Source

Income Type	2003 $ Income	% Of Total	2002 $ Income	% Of Total	$ Change	% Change
Gain on Sale of Pool Units	14,875,820	15.1	9,392,673	9.7	5,483,146	58.4
Retirement Funds Bond Pool	51,056,593	52.0	50,930,680	52.7	125,912	0.2
Domestic Stock Pool	11,827,628	12.0	11,452,837	11.8	374,791	3.3
Montana Mortgages	8,471,892	8.6	9,911,638	10.3	(1,439,747)	(14.5)
International Stock Pool	4,082,530	4.2	3,341,943	3.5	740,587	22.2
Montana Private Equity Pool	6,872,271	7.0	10,100,312	10.5	(3,228,041)	(32.0)
Short Term Investment Pool	578,281	0.6	1,016,734	1.1	(438,453)	(43.1)
Equity Real Estate	498,812	0.5	503,263	0.5	(4,450)	(0.9)
Total Gross Income	98,263,826	100.0	96,650,081	100.0	1,613,745	1.7
Board Management Fees (1)	(560,630)		(788,420)		227,789	(28.9)
Custodial Bank Fees	(203,078)		(258,093)		55,015	(21.3)
External Manager Fees	(1,919,709)		(2,027,922)		108,213	(5.3)
Total Net Income	95,580,408		93,575,646		2,004,762	2.1

(1) FY 2003 Board Management Fees for TRS were 3 Basis Points of the Managed Portfolios Fair Value

TRS 2003 Total Rates of Return by Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	1.54	91-Day T Bill	1.41	0.13
Domestic Stock Pool	2.14	S & P 500 Large Cap	0.25	1.89
Schroder Capital Management	(5.57)	Montana Custom Pacific	(6.03)	0.46
SG Yamaichi Asset Management	(7.35)	Montana Custom Pacific	(6.03)	(1.32)
Pyrford International	(7.36)	MSCI Europe	(4.80)	(2.56)
Internal International	(4.95)	MSCI Europe	(4.80)	(0.15)
Private Equity Pool	5.15	Montana Custom Index	15.00	(9.85)
Fixed Income (RFBP)	15.88	LB Aggregate Bond	10.41	5.47
Montana Mortgages	4.94	NA		
Equity Real Estate	7.47	NA		
All Assets	6.46	Composite (1)	4.44	2.02

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

TRS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return Benchmark
2003	6.46	TRS Composite	4.44	2.02
3 Year Average	(2.11)	TRS Composite	(1.92)	(0.19)
5 Year Average	2.60	TRS Composite	2.56	0.04
9 Year Average	8.49	TRS Composite	8.62	(0.13)

(1) An Index Composite Parallelling the Fund's Asset Allocation At Fair Value

TRS invested balances and income history are shown on Page A-18 in Appendix A.

OTHER RETIREMENT SYSTEMS

Assets of Individual Pensions at June 30

Systems	2003 $ Fair Value	2002 $ Fair Value	2003 $ Book Value	2002 $ Book Value	Fair % Change	Book % Change
Sheriffs	123,040,202	114,887,953	103,873,483	98,679,161	7.1	5.3
Police	122,556,699	112,566,879	104,095,801	97,422,226	8.9	6.9
Firefighters	116,816,914	107,336,318	100,204,442	93,859,432	8.8	6.8
Highway Patrol	70,686,225	67,412,620	57,427,404	55,405,527	4.9	3.6
Judges	39,581,744	37,174,463	32,164,120	30,653,917	6.5	4.9
Game Wardens	37,141,780	32,364,275	31,138,043	27,539,613	14.8	13.1
Vol. Firefighters	17,859,889	16,831,639	16,374,385	15,911,022	6.1	2.9
Total	527,683,453	488,574,147	445,277,677	419,470,898	8.0	6.2

Other Pensions Annual Change At June 30

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	172,232,712	38.7	194,968,802	46.5	(22,736,090)	(11.7)
Domestic Stock Pool	181,806,462	40.8	150,706,985	35.9	31,099,477	20.6
International Stock Pool	52,762,042	11.8	46,000,000	11.0	6,762,042	14.7
Montana Private Equity Pool	26,760,204	6.0	15,986,381	3.8	10,773,823	67.4
Total Equity	261,328,708	58.7	212,693,366	50.7	48,635,343	22.9
Cash Equivalents (STIP)	11,716,257	2.6	11,808,731	2.8	(92,473)	(0.8)
Total	445,277,677	100.0	419,470,898	100.0	25,806,780	6.2

Other Pensions Book/Fair Values At June 30, 2003

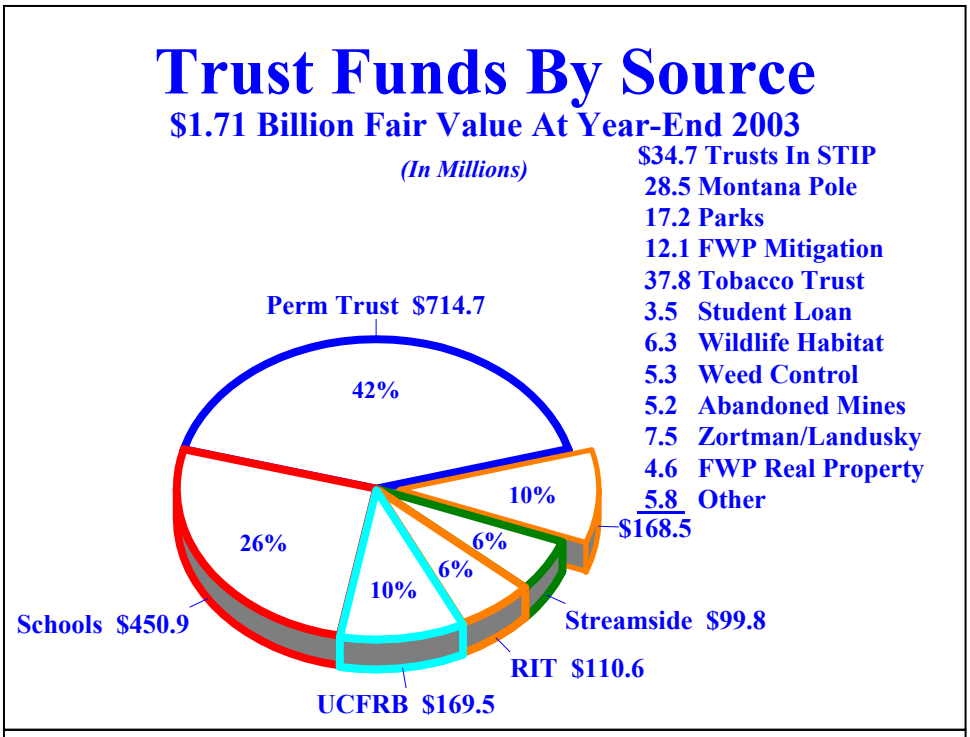
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Fixed	% of Fair
Fixed Income (RFBP)	172,232,712	187,377,202	15,144,490	38.7	35.5
Domestic Stock Pool	181,806,462	254,088,625	72,282,163	40.8	48.2
International Stock Pool	52,762,042	44,870,848	(7,891,195)	11.8	8.5
Montana Private Equity Pool	26,760,204	29,630,522	2,870,318	6.0	5.6
Total Equity	261,328,708	328,589,994	67,261,286	58.7	62.3
Cash Equivalents (STIP)	11,716,257	11,716,257	0	2.6	2.2
Total	445,277,677	527,683,454	82,405,776	100.0	100.0

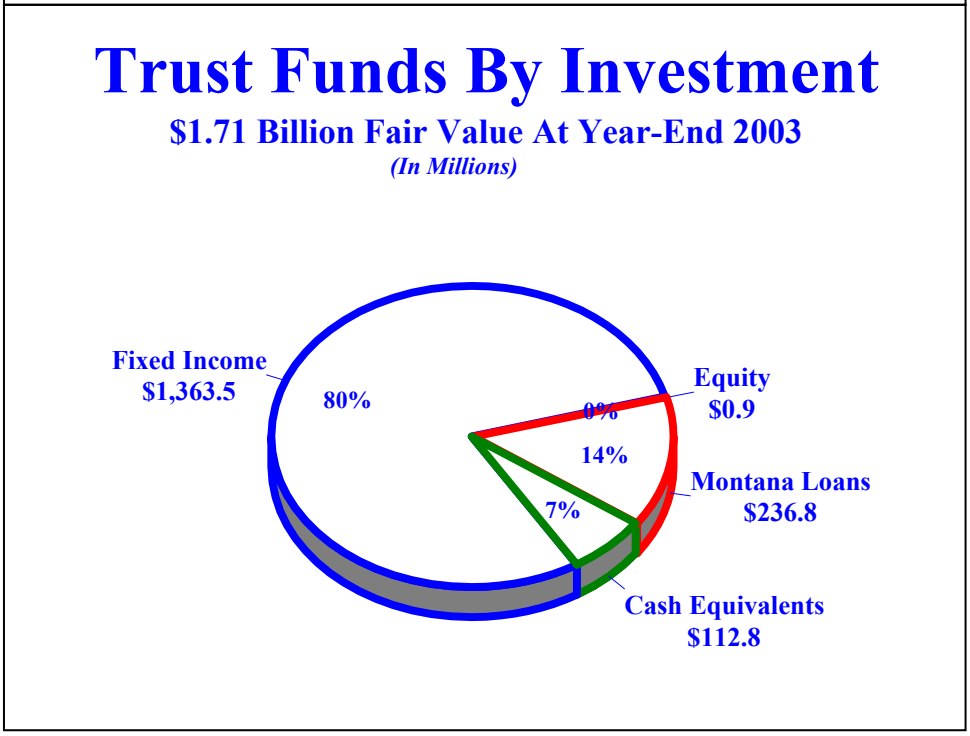
Other Retirement Systems 2003 Total Rates of Return

Fund	% Return	Index (1)	% Return	Fund +/-Index
Sheriffs	7.07	Composite	4.84	2.23
Police	7.34	Composite	5.05	2.29
Firefighters	7.28	Composite	4.98	2.30
Highway Patrol	7.01	Composite	4.82	2.19
Judges	7.19	Composite	4.97	2.22
Game Warden	7.17	Composite	4.99	2.18
Vol. Firefighters	8.28	Composite	6.10	2.18

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

The seven other retirement funds are administered by the Public Employees Retirement Board, the same Board that administers the Public Employees' Retirement System. These smaller systems participate with the Public Employees Retirement Fund and the Teachers' Retirement Fund in all investment pools managed by the Board, but do not participate in the Montana Residential Mortgage Program or real estate investments.





TRUST FUNDS

The Board invests several trust funds, some of which are created and protected by the state constitution.

Other trusts have been created statutorily by the legislature or involve federal funds.

Several trust funds were established as a part of settlements between the state and private corporations to ensure environmental clean up of polluted sites.

The upper graph shows the various trust funds by type. The lower graph shows the trust fund investments by major asset class.

The table on the next page shows the change in the book value from 2002 to 2003 by individual trust fund.

Total Trust Funds Annual Change At June 30

Trust	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% Change
Permanent Coal Tax Trust (1)	678,013,550	42.4	663,782,622	41.9	14,230,928	2.1
Schools (Trust and Legacy)	410,553,970	25.7	414,902,395	26.2	(4,348,424)	(1.0)
UCFRB Restoration	142,819,611	8.9	137,611,338	8.7	5,208,273	3.8
Resource Indemnity Trust	100,000,965	6.3	101,507,624	6.4	(1,506,659)	(1.5)
Streamside Tailings	93,536,658	5.9	93,470,409	5.9	66,248	0.1
Tobacco Trust	35,672,910	2.2	23,189,491	1.5	12,483,418	53.8
Trusts In STIP	34,728,918	2.2	44,139,284	2.8	(9,410,366)	(21.3)
Montana Pole	27,126,891	1.7	26,800,810	1.7	326,082	1.2
Parks Trust	15,891,667	1.0	15,958,021	1.0	(66,354)	(0.4)
UCFRB Reserve	13,180,781	0.8	12,289,811	0.8	890,969	7.2
FWP Mitigation	11,506,488	0.7	13,127,014	0.8	(1,620,526)	(12.3)
Wildlife Habitat	6,042,636	0.4	5,785,113	0.4	257,524	4.5
Zortman/Landusky	5,977,861	0.4	4,740,563	0.3	1,237,299	26.1
Weed Control	4,998,883	0.3	5,588,681	0.4	(589,798)	(10.6)
Abandoned Mines	4,962,800	0.3	4,451,608	0.3	511,192	11.5
Cultural Trust	4,515,175	0.3	4,509,363	0.3	5,812	0.1
FWP Real Property	4,373,670	0.3	4,198,962	0.3	174,709	4.2
Guaranteed Student Loan	3,545,212	0.2	8,567,988	0.5	(5,022,776)	(58.6)
Trusts In MTCP	244,213	0.0	244,213	0.0	0	0.0
Total	1,597,692,859	100.0	1,584,865,310	100.0	12,827,550	0.8
Fixed-Income	1,247,807,644	78.1	1,235,250,004	77.9	12,557,639	1.0
Montana Loans	236,820,571	14.8	232,474,932	14.7	4,345,639	1.9
Cash Equivalents (STIP)	112,820,432	7.1	116,896,161	7.4	(4,075,730)	(3.5)
Equity	244,213	0.0	244,213	0.0	0	0.0
Total	1,597,692,859	100.0	1,584,865,310	100.0	12,827,549	0.8

(1) Includes Treasure State Endowment, Treasure State Water, CST Bond, and Permanent Income Accounts

A complete listing of individual trust fund investment portfolios is shown beginning on Page A – 6 in Appendix A. The investment income earned by each trust is shown beginning on Page A-1 in Appendix A.

COAL TAX TRUST FUND

Article IX, Section 5 of the state Constitution requires that 50 percent of all coal severance tax revenues be deposited in a permanent trust fund (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest up to 25 percent of the Trust in Montana businesses.

The legislature has partitioned the Trust into several sub-funds. The Permanent Fund was initially established when the Trust was created, while the Severance Tax Bond Fund, created later, provides debt service guarantees and is invested solely in STIP. The Treasure State Endowment Fund was created July 1, 1993, with a $10.0 million transfer from the Permanent Fund. From July 1, 1993 through June 30, 1999 one-half of the coal severance tax earmarked for the Trust was deposited in the Permanent Fund and the remaining 50 percent was deposited in the Treasure State Endowment Fund.

Effective July 1, 1999, a new “Treasure State Endowment Regional Water Fund” sub-fund was created and 25 percent of Trust revenues dedicated to that account.

Income from the Permanent Fund and the two Bond Funds is deposited in the Permanent Fund Income Fund where it is swept periodically to the state General Fund. All sub-funds, except the income fund, are protected by the constitution and may be appropriated only by a three-fourths vote of each house of the legislature. Income from the Treasure State Endowment is appropriated by the Legislature for local government infrastructure projects. Treasure State Endowment Regional Water Fund income is appropriated by the Legislature for local government water projects.

The book values of the Coal Tax Trust sub-funds are shown below:

Coal Tax Trust Subfunds at June 30

Subfund	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% Change
Permanent Fund	542,450,157	80.0	542,873,714	81.8	(423,556)	(0.1)
Treasure State Endowment	111,590,227	16.5	99,308,669	15.0	12,281,558	12.4
Treasure State Regional Water	14,962,866	2.2	10,869,886	1.6	4,092,980	37.7
Severance Tax Bond Fund	5,840,119	0.9	5,675,795	0.9	164,324	2.9
Permanent Fund Income	3,170,180	0.5	2,876,818	0.4	293,362	10.2
School Bond Fund	0	0.0	2,177,740	0.3	(2,177,740)	(100.0)
Total Coal Tax Trust	678,013,550	100.0	663,782,622	100.0	14,230,928	2.1

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities’ portfolio total rate of return.

Permanent Coal Tax Trust Change At June 30 (1)

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	395,738,156	58.4	402,664,818	60.7	(6,926,662)	(1.7)
Science and Technology	14,287,541	2.1	14,733,670	2.2	(446,128)	(3.0)
Department of Natural Resources	46,366,904	6.8	46,366,904	7.0	0	NA
Department of Justice	1,902,000	0.3	1,827,000	0.3	75,000	4.1
Montana Facility Finance	1,543,021	0.2	1,636,510	0.2	(93,489)	(5.7)
Local Gov. Infrastructure	9,050,975	1.3	10,289,391	1.6	(1,238,416)	(12.0)
Value-added Loans	6,854,640	1.0	6,627,953	1.0	226,687	3.4
Commercial Loans	156,815,490	23.1	150,993,503	22.7	5,821,987	3.9
Total In-State Investments	236,820,571	34.9	232,474,931	35.0	4,345,640	1.9
STIP Tr. St. Endow Trust	3,761,509	0.6	2,116,284	0.3	1,645,225	77.7
STIP Permanent Trust Income	3,170,180	0.5	2,876,818	0.4	293,362	10.2
STIP Permanent Fund	32,634,056	4.8	17,377,990	2.6	15,256,067	87.8
STIP Sev. Tax Bond Fund	5,840,119	0.9	5,675,795	0.9	164,324	2.9
STIP Tr. St. Regional Water	48,958	0.0	595,986	0.1	(547,028)	(91.8)
Cash Equivalents (STIP)	45,454,823	6.7	28,642,873	4.3	16,811,950	58.7
Total	678,013,550	100.0	663,782,622	100.0	14,230,928	2.1

(1) Includes Treasure State Endowment, Treasure State Water, CST Bond and Permanent Income Account

Permanent Coal Tax Trust Book/Fair Values At June 30, 2003

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	395,738,156	432,470,678	36,732,521	58.4	60.5
In-State Investments	236,820,571	236,820,571	0	34.9	33.1
Cash Equivalents (STIP)	45,454,823	45,454,823	0	6.7	6.4
Total	678,013,550	714,746,072	36,732,521	100.0	100.0

Permanent Coal Tax Trust 2003 Total Rates of Return

Asset Type	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	1.54	91-Day T Bill	1.41	0.13
Fixed Income (TFBP)	14.42	LB Aggregate Bond	10.41	4.01
Montana Loans (1)	6.22	In-State Loans	NA	NA
All Assets	10.62	Composite (2)	8.42	2.2

(1) In-State Investment Loans, Science & Tech Loans, and other legislatively authorized loans
(2) An Index Composite paralleling the Fund's asset allocation at fair value

The Coal Tax Trust earned $44.3 million in investment income in 2003, compared to $45.0 million in 2002.

The Coal Tax Trust is also used to fund the In-State Investment Program *(See Page 53)*. The Coal Tax Trust invested balances and investment income history are shown on Page A-19 in Appendix A.

TRUST AND LEGACY FUND

Article X, Sections 2 and 3 of the state Constitution requires that all royalties and other proceeds received from school lands granted to the state under federal enabling legislation be deposited in the Trust and Legacy Fund, where it shall forever remain inviolate and guaranteed by the state against loss or diversion.

Trust & Legacy Fund Annual Change At June 30

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	410,553,970	100.0	407,654,622	98.3	2,899,349	0.7
Cash Equivalents (STIP)	0	0.0	7,247,773	1.7	(7,247,773)	(100.0)
Total	410,553,970	100.0	414,902,395	100.0	(4,348,424)	(1.0)

Trust & Legacy Book/Fair Values At June 30, 2003

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	410,553,970	450,928,946	40,374,975	100.0	100.0
Cash Equivalents (STIP)	0	0	0	0.0	0.0
Total	410,553,970	450,928,946	40,374,975	100.0	100.0

Trust & Legacy Fund 2003 Total Rates of Return

Asset Type	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	1.54	91-Day T Bill	1.41	0.13
Fixed Income (TFBP)	14.42	LB Aggregate Bond	10.41	4.01
All Assets	14.27	Composite (1)	10.30	3.97

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The Trust and Legacy Fund earned $29.2 million in investment income in 2003, compared to $29.8 million in 2002. The Trust and Legacy Fund invested balances and investment income history are shown on Page A-20 in Appendix A.

RESOURCE INDEMNITY TRUST FUND

Article IX, Section 2 of the state Constitution requires that revenues from the Resource Indemnity Tax on minerals be deposited in the Resource Indemnity Trust Fund, the principal of which "shall forever remain inviolate" until the principal reaches $100 million. The fund's book value reached $100.0 million in fiscal 2002.

Resource Indemnity Trust Annual Change At June 30

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	99,999,976	100.0	99,999,976	98.5	0	0.0
Cash Equivalents (STIP)	989	0.0	1,507,648	1.5	(1,506,659)	(99.9)
Total	100,000,965	100.0	101,507,624	100.0	(1,506,659)	(1.5)

Resource Indemnity Trust Book/Fair Values At June 30, 2003

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	99,999,976	110,559,808	10,559,832	100.0	100.0
Cash Equivalents (STIP)	989	989	0	0.0	0.0
Total	100,000,965	110,560,797	10,559,832	100.0	100.0

Resource Indemnity Trust Fund 2003 Total Rates of Return

Asset Type	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	1.55	91-Day T Bill	1.41	0.14
Fixed Income (TFBP)	14.42	LB Aggregate Bond	10.41	4.01
All Assets	14.37	Composite (1)	10.36	4.01

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The Resource Indemnity Trust Fund earned $7.2 million in investment income in 2003, compared to $7.3 million in 2002. The Resource Indemnity Trust Fund invested balances and investment income history are shown on Page A-21 in Appendix A.

COAL TAX PARKS/CULTURAL TRUST FUNDS

A portion of the coal severance tax is dedicated to a statutorily created Parks Trust Fund and a Cultural Trust Fund (Trusts). Investment income generated by the Trusts is appropriated by the legislature to acquire/operate state parks and to fund cultural and aesthetics projects. The 1997 Legislature appropriated $3.9 million of Cultural Trust principal to Purchase Historical Properties.

Coal Tax Parks/Cultural Funds Annual Change At June 30

Fund Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% Change
Parks Trust	15,891,667	77.9	15,958,021	78.0	(66,354)	(0.42)
Cultural Trust	4,515,175	22.1	4,509,363	22.0	5,812	0.13
Total	20,406,842	100.0	20,467,384	100.0	(60,541)	(0.30)
Investment Type						
Fixed Income (TFBP)	20,216,533	99.1	20,057,964	98.0	158,569	0.79
Cash Equivalents (STIP)	190,309	0.9	409,420	2.0	(219,111)	(53.52)
Total	20,406,842	100.0	20,467,384	100.0	(60,541)	(0.30)

Parks/Cultural Trusts Book/Fair Values At June 30, 2003

Fund Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Parks Trust	15,891,667	17,160,629	1,268,962	77.9	77.9
Cultural Trust	4,515,175	4,861,059	345,884	22.1	22.1
Total	20,406,842	22,021,688	1,614,846	100.0	100.0
Investment Type					
Fixed Income (TFBP)	20,216,533	21,831,379	1,614,846	99.1	99.1
Cash Equivalents (STIP)	190,309	190,309	0	0.9	0.9
Total	20,406,842	22,021,688	1,614,846	100.0	100.0

Parks/Cultural Trust Funds 2003 Total Rates of Return

Asset Type	% Return	Market Index	Index % Return	Return +/- Index
Parks Trust:				
Cash Equivalents (STIP)	1.54	91-Day T Bill	1.41	0.13
Fixed Income (TFBP)	14.42	LB Aggregate Bond	10.41	4.01
Parks Trust All Assets	14.31	Composite (1)	10.32	3.99
Cultural Trust:				
Cash Equivalents (STIP)	1.54	91-Day T Bill	1.41	0.13
Fixed Income (TFBP)	14.42	LB Aggregate Bond	10.41	4.01
Cultural Trust All Assets	14.20	Composite (1)	10.26	3.94

(1) An index composite paralleling the Funds' asset allocation at fair value

The trusts earned $1.4 million in investment income in 2003 and 2002. The invested balances and investment income history of these trusts are shown on Page A-22 in Appendix A.

OTHER TRUST FUNDS

Fish, Wildlife, and Parks (FWP) Mitigation Trust - expendable trust funds fish and wildlife mitigation/enhancements.
Abandoned Mine Trust - expendable trust funds abandoned mine reclamation.
FWP Real Property Trust - non-expendable trust funds operations, development, and maintenance of FWP real property.
Weed Control Trust - non-expendable $2.5 million trust funds noxious weed control.
Wildlife Habitat Trust - funds acquisition/development/maintenance of wildlife habitat.
Montana Post and Pole Trust - funds environmental cleanup of the former Montana Pole and Treatment Plant in Butte.
Guaranteed Student Loan - the federal portion of student loan monies.
The UCFRB Funds represent proceeds from state settlements with the Atlantic Richfield Company for restoration of the Upper Clark Fork River Basin.
Streamside Tailing Funds are derived from a consent decree between the state and the Atlantic Richfield Company for remedial treatment of the Silver Bow Creek/Butte area.
Tobacco Trust – The nation's largest tobacco companies are required to pay at least $205.0 billion over the next 25 years to the states. Forty percent of Montana's share is deposited in a trust fund.
Zortman/Landusky Funds were paid by the Pegasus mining company and its insurer to provide long-term water treatment at the closed Zortman and Landusky mines near Malta**.**

Other Trusts Annual Change At June 30

Fund	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% Change
UCFRB Restoration	142,819,611	40.4	137,611,338	40.5	5,208,273	3.8
Streamside Tailings	93,536,658	26.4	93,470,409	27.5	66,248	0.1
Tobacco Trust	35,672,910	10.1	23,189,491	6.8	12,483,418	53.8
Montana Pole	27,126,891	7.7	26,800,810	7.9	326,082	1.2
UCFRB Reserve	13,180,781	3.7	12,289,811	3.6	890,969	7.2
FWP Mitigation	11,506,488	3.3	13,127,014	3.9	(1,620,526)	(12.3)
Wildlife Habitat	6,042,636	1.7	5,785,113	1.7	257,524	4.5
Zortman/Landusky	5,977,861	1.7	4,740,563	1.4	1,237,299	26.1
Abandoned Mines	4,998,883	1.4	5,588,681	1.6	(589,798)	(10.6)
Weed Control	4,962,800	1.4	4,451,608	1.3	511,192	11.5
FWP Real Property	4,373,670	1.2	4,198,962	1.2	174,709	4.2
Guaranteed Student Loan	3,545,212	1.0	8,567,988	2.5	(5,022,776)	(58.6)
Total	353,744,401	100.0	339,821,788	100.0	13,922,613	4.1
Investment Type						
Trust Funds Bond Pool	224,733,710	63.5	208,859,744	61.5	15,873,966	7.6
Corporate Asset-Backed Bonds	11,387,998	3.2	8,542,461	2.5	2,845,537	33.3
Other Corporate Bonds	26,723,034	7.6	32,649,170	9.6	(5,926,136)	(18.2)
US Mortgage-Backed Bonds	9,538,874	2.7	12,314,755	3.6	(2,775,881)	(22.5)
US Government-Backed Bonds	48,915,392	13.8	42,506,494	12.5	6,408,898	15.1
Total Fixed Income	321,299,008	90.8	304,872,625	89.7	16,426,383	5.4
Cash Equivalents (STIP)	32,445,393	9.2	34,949,163	10.3	(2,503,770)	(7.2)
Total	353,744,401	100.0	339,821,788	100.0	13,922,613	4.1

Other Trusts Book/Fair Values At June 30, 2003

Fund	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
UCFRB Restoration	142,819,611	155,171,067	12,351,456	40.4	40.8
Streamside Tailings	93,536,658	99,788,275	6,251,618	26.4	26.2
Tobacco Trust	35,672,910	37,726,930	2,054,020	10.1	9.9
Montana Pole	27,126,891	28,538,576	1,411,685	7.7	7.5
UCFRB Reserve	13,180,781	14,348,177	1,167,396	3.7	3.8
FWP Mitigation	11,506,488	12,127,210	620,722	3.3	3.2
Wildlife Habitat	6,042,636	6,318,566	275,930	1.7	1.7
Zortman/Landusky	5,977,861	7,477,775	1,499,914	1.7	2.0
Weed Control	4,998,883	5,312,503	313,619	1.4	1.4
Abandoned Mines	4,962,800	5,222,748	259,948	1.4	1.4
FWP Real Property	4,373,670	4,615,934	242,264	1.2	1.2
Guaranteed Student Loan	3,545,212	3,545,212	0	1.0	0.9
Total	353,744,401	380,192,972	26,448,571	100.0	100.0
Investment Type					
Trust Funds Bond Pool	224,733,710	244,136,133	19,402,423	63.5	64.2
Corporate Asset-Backed Bonds	11,387,998	11,741,774	353,776	3.2	3.1
Other Corporate Bonds	26,723,034	28,743,147	2,020,114	7.6	7.6
US Mortgage-Backed Bonds	9,538,874	9,940,792	401,918	2.7	2.6
US Government-Backed Bonds	48,915,392	53,185,732	4,270,340	13.8	14.0
Total Fixed-Income	321,299,008	347,747,579	26,448,571	90.8	91.5
Cash Equivalents (STIP)	32,445,393	32,445,393	0	9.2	8.5
Total	353,744,401	380,192,972	26,448,571	100.0	100.0

The other trust portfolios are listed beginning on Page A-6 in Appendix A. The investment income earned by each trust is shown beginning on Page A-1 in Appendix A.

STATE FUND INSURANCE

The State Compensation Insurance Fund (State Fund) provides workers' compensation and occupational disease insurance for claims arising from injuries occurring on or after July 1, 1990. Effective on that date, the state's workers' compensation fund was divided into two funds with separate liabilities. The "old" fund retained all financial obligations for claims for injuries occurring prior to July 1, 1990, while the "new" fund assumed claim obligations for injuries occurring after that date.

State Fund Annual Change At June 30

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% of Change
Corporate Asset-Backed Bonds	15,494,411	2.8	13,000,574	2.5	2,493,837	19.2
Other Corporate Bonds	186,427,682	34.1	204,621,423	40.1	(18,193,741)	(8.9)
US Mortgage-Backed Bonds	68,051,580	12.5	74,848,118	14.7	(6,796,538)	(9.1)
US Government-Backed Bonds	151,604,707	27.7	115,258,490	22.6	36,346,217	31.5
International Bonds (US $)	15,960,381	2.9	7,954,030	1.6	8,006,351	100.7
Total Fixed Income	437,538,760	80.1	415,682,635	81.4	21,856,125	5.3
BGI S&P 500 Equity Index	79,000,000	14.5	74,000,000	14.5	5,000,000	6.8
Cash Equivalents (STIP)	29,965,376	5.5	20,909,313	4.1	9,056,062	43.3
Total	546,504,136	100.0	510,591,948	100.0	35,912,188	7.0

State Insurance Fund Book/Fair Values At June 30, 2003

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Fixed	% of Fair
Corporate Asset-Backed Bonds	15,494,411	16,014,987	520,577	3.4	2.8
Other Corporate Bonds	186,427,682	202,832,714	16,405,032	42.9	35.4
US Mortgage-Backed Bonds	68,051,580	70,771,376	2,719,797	15.0	12.4
US Government-Backed Bonds	151,604,707	165,153,525	13,548,818	35.0	28.9
International Bonds (US $)	15,960,381	17,592,639	1,632,258	3.7	3.1
Total Fixed Income	437,538,760	472,365,241	34,826,481	100.0	82.5
BGI S&P 500 Equity Index	79,000,000	69,958,153	(9,041,847)		12.2
Cash Equivalents (STIP)	29,965,376	29,965,376	0		5.2
Total	546,504,136	572,288,770	25,784,634		100.0

State Fund Insurance 2003 Total Rates of Return

Asset Type	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	1.54	91-Day T Bill	1.41	0.13
Equities	0.35	S & P 500 Large Cap	0.26	0.09
Fixed Income	11.01	LB Gov/Corp Intermediate	10.82	0.19
All Assets	9.11	Composite (1)	8.90	0.21

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The State Fund earned $29.1 million in investment income in 2003, compared to $33.5 million in 2002. The State Fund portfolio is listed beginning on Page A-8 of Appendix A.

OTHER INSURANCE FUNDS

Old Workers - Compensation Fund - pays claims for all injury claims occurring prior to July 1, 1990.
Group Insurance - created in 1981, provides health and life insurance to non-university state employees.
Subsequent Injury - provides benefits to workers who are vocationally handicapped and whose Workers' Compensation benefits have expired.
Hail Insurance - insures crops from hail damage. The entire account is currently held in STIP.
Other insurance programs whose investments are held solely in STIP include:

University Group Benefits.....$10,105,400
Uninsured Employers.....506,675
Unemployment Insurance Benefits 2,153,090

Total $12,765,165

Other Insurance Annual Change At June 30

Fund Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% of Change
Old Fund	81,262,148	83.0	112,582,789	85.7	(31,320,641)	(27.8)
Group Insurance	9,442,301	9.6	12,522,250	9.5	(3,079,948)	(24.6)
Hail Insurance	5,390,669	5.5	4,513,772	3.4	876,896	19.4
Subsequent Injury	1,793,679	1.8	1,779,015	1.4	14,664	0.8
Total	97,888,797	100.0	131,397,826	100.0	(33,509,029)	(25.5)
Investment Type						
Corporate Asset-Backed Bonds	38,674	0.0	5,541,403	4.2	(5,502,729)	(99.3)
Other Corporate Bonds	25,781,435	26.3	40,587,456	30.9	(14,806,021)	(36.5)
US Mortgage-Backed Bonds	11,699,352	12.0	13,986,522	10.6	(2,287,170)	(16.4)
US Government-Backed Bonds	41,450,165	42.3	54,400,346	41.4	(12,950,181)	(23.8)
International Bonds (US $)	2,999,057	3.1	2,996,807	2.3	2,250	0.1
Total Fixed Income	81,968,683	83.7	117,512,533	89.4	(35,543,850)	(30.2)
Cash Equivalents (STIP)	15,920,113	16.3	13,885,293	10.6	2,034,820	14.7
Total	97,888,797	100.0	131,397,826	100.0	(33,509,029)	(25.5)

Other Insurance Book/Fair Values At June 30, 2003

Fund Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Old Fund	81,262,148	86,641,334	5,379,186	83.0	83.7
Group Insurance	9,442,301	9,637,281	194,979	9.6	9.3
Hail Insurance	5,390,669	5,390,669	0	5.5	5.2
Subsequent Injury	1,793,679	1,897,634	103,955	1.8	1.8
Total	97,888,797	103,566,917	5,678,120	100.0	100.0
Investment Type					
Corporate Asset-Backed Bonds	38,674	38,851	176	0.0	0.0
Other Corporate Bonds	25,781,435	27,525,123	1,743,687	26.3	26.6
US Mortgage-Backed Bonds	11,699,352	12,029,654	330,302	12.0	11.6
US Government-Backed Bonds	41,450,165	45,041,926	3,591,761	42.3	43.5
International Bonds (US $)	2,999,057	3,011,250	12,193	3.1	2.9
Total Fixed Income	81,968,683	87,646,803	5,678,120	83.7	84.6
Cash Equivalents (STIP)	15,920,113	15,920,113	0	16.3	15.4
Total	97,888,797	103,566,917	5,678,120	100.0	100.0

Other Insurance Portfolios are listed beginning on Page A-10 of Appendix A.

TREASURER'S FUND

The Treasurer's Fund (Fund) is comprised of surplus cash in all state accounts that do not retain their investment earnings. All earnings are deposited in the State General Fund. State law authorizes the Board to determine the amount of surplus cash in the Fund to be invested and the type of investments to be made. Invested balances at book value vary widely due to varying levels of excess cash in the state's General Fund and other accounts comprising the Fund. This fund has been a major investor in STIP since 1974 when STIP was created. The "Other" category depicted in the graph consists of US Government securities and Repurchase Agreements.

Treasurer's Fund Annual Change At June 30

Investment Type	2003 $ Book Value	% of Total	2002 $ Book Value	% of Total	$ Change	% of Change
Repurchase Agreements	0	0.0	15,000,000	4.6	(15,000,000)	(100.0)
Municipal Investor Account	140,005,238	40.3	0	0.0	140,005,238	NA
US Government-Backed Bonds	59,789,418	17.2	59,735,140	18.3	54,279	0.1
Cash Equivalents (STIP)	147,708,039	42.5	250,835,002	77.0	(103,126,964)	(41.1)
Total	347,502,695	100.0	325,570,142	100.0	21,932,553	6.7

Treasurer's Fund Book/Fair Values At June 30, 2003

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Municipal Investor Account	140,005,238	140,005,238	0	40.3	40.1
US Government-Backed Bonds	59,789,418	61,721,299	1,931,881	17.2	17.7
Cash Equivalents (STIP)	147,708,039	147,708,039	0	42.5	42.3
Total	347,502,695	349,434,576	1,931,881	100.0	100.0

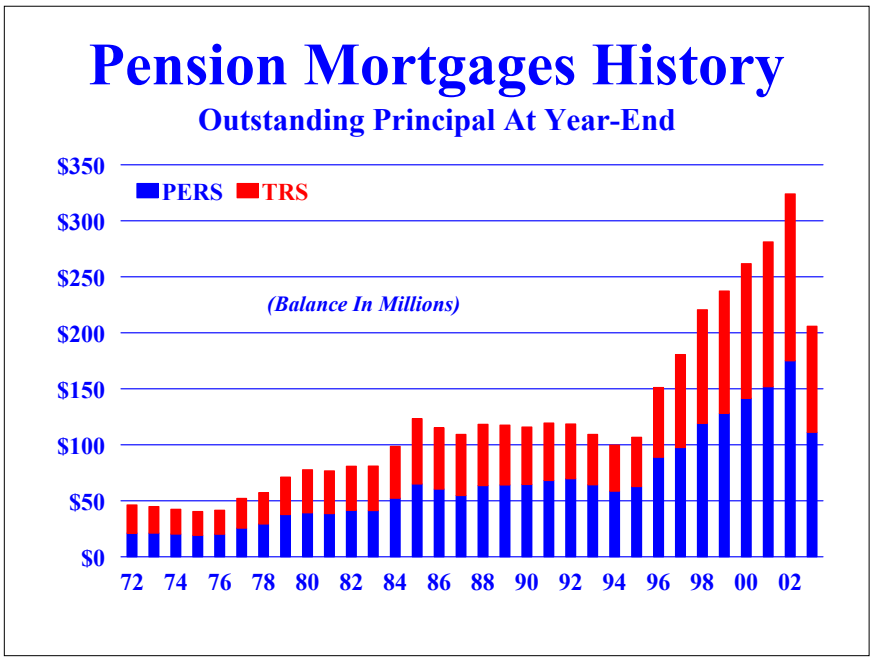
Treasurer's Fund 2003 Total Rates of Return

Asset Type	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	1.65	91-Day T Bill	1.41	0.24
Fixed Income	6.11	ML US Treasury 1-3 Yrs.	4.65	1.46
All Assets	2.73	Composite (1)	2.21	0.52

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The Treasurer's Fund earned $6.4 million in investment income in 2003, compared to $12.4 million in 2002. The Treasurer's Fund Portfolio is listed beginning on Page A-6 of Appendix A. The Treasurer's Fund invested balance and income history are shown on Page A-23 of Appendix A.

MONTANA RESIDENTIAL MORTGAGES



The Board invests pension funds in Montana mortgages by purchasing all or a portion of mortgages from qualified financial institutions. Interest rates are set weekly, based on quotes from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, the two major US secondary mortgage markets. Financial institutions charge a fee for servicing the loans. The number and location of mortgages purchased by the Board depend upon the mortgage lending activities of individual financial institutions and their interest in the Board's mortgage program.

Montana Mortgages By Type Annual Change At June 30

Mortgage Type	2003 Book Value	% Of Total	2002 Book Value	% Of Total	$ Change	% Change
Residential Conventional	145,672,381	70.8	243,057,286	75.0	(97,384,905)	(40.1)
Residential FHA	44,621,235	21.7	58,070,687	17.9	(13,449,452)	(23.2)
Residential VA	5,151,065	2.5	7,672,944	2.4	(2,521,879)	(32.9)
Multi-Family Conventional	1,986,337	1.0	4,217,356	1.3	(2,231,019)	(52.9)
Commercial	8,430,191	4.1	11,019,684	3.4	(2,589,493)	(23.5)
Total Mortgages	205,861,209	100.0	324,037,957	100.0	(118,176,748)	(36.5)

Mortgage rates on the secondary market declined to less than 6 percent during 2003 and the Board declined to purchase mortgages for the pension funds at these rates. This policy, combined with heavy mortgage refinancings of mortgages in the portfolio caused a significant drop in the pension mortgage portfolio during the year.

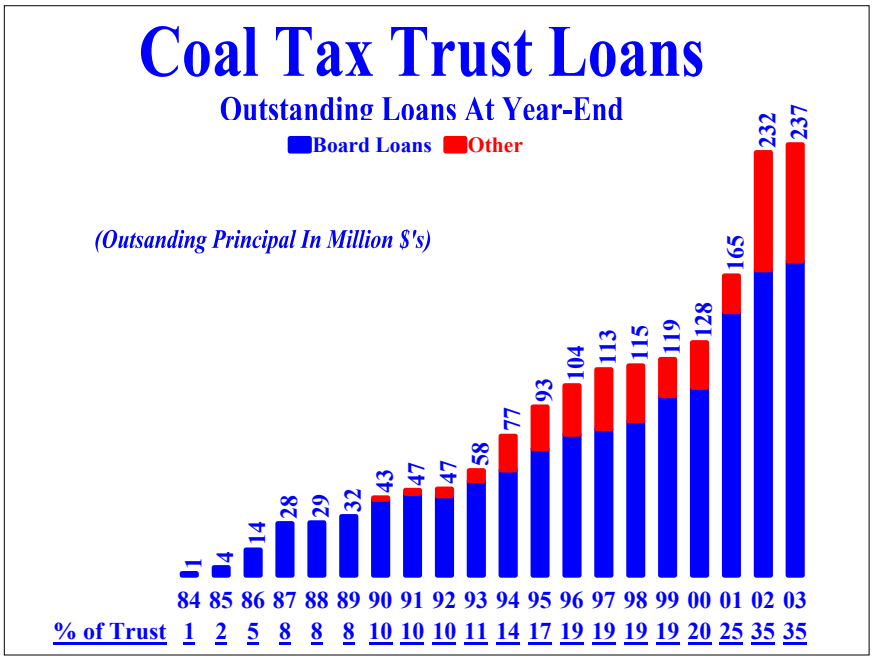
Loan Losses/Arrears - Pension Mortgage loans in arrears 90 or more days increased from .41 percent of total mortgage holdings at year end 2002 to .61 percent of mortgage holdings at year-end 2003. These arrears ratios compare to .85 percent and .79 percent, respectively for Montana* financial institutions during the period. The number of foreclosed properties remained at seven between year-end 2002 and year-end 2003. All mortgages are secured by single-family residential, multi-family residential, or commercial properties in Montana.

*Source: Total FDIC Montana Commercial Bank Delinquent Loans to Montana Net Loans& Leases (1-4 Residential & Multi-family only) as of 6/30/02 and 3/31/03.

Residential Mortgage Balances By County Annual Change At June 30

County	2003 Balance	% Of Total	2002 Balance	% Of Total	02-03 $ Change	2003 Loans	2002 Loans	02 - 03 Change
Yellowstone	73,992,416	35.9	118,236,910	36.5	(44,244,494)	1,051	1,489	(438)
Gallatin	22,299,270	10.8	36,194,522	11.2	(13,895,253)	265	398	(133)
Flathead	16,783,889	8.2	33,643,088	10.4	(16,859,199)	220	386	(166)
Lake	12,405,508	6.0	18,973,196	5.9	(6,567,688)	172	250	(78)
Stillwater	10,489,135	5.1	14,449,737	4.5	(3,960,602)	138	183	(45)
Missoula	9,726,520	4.7	13,654,372	4.2	(3,927,852)	66	103	(37)
Cascade	8,468,766	4.1	16,767,073	5.2	(8,298,307)	130	233	(103)
Custer	7,671,907	3.7	11,027,819	3.4	(3,355,912)	165	223	(58)
Park	4,487,116	2.2	6,468,657	2.0	(1,981,541)	58	84	(26)
Sanders	3,893,223	1.9	6,035,198	1.9	(2,141,975)	56	78	(22)
Richland	3,413,989	1.7	5,505,033	1.7	(2,091,044)	81	119	(38)
Carbon	3,350,154	1.6	4,225,909	1.3	(875,756)	47	57	(10)
Roosevelt	2,709,741	1.3	2,923,566	0.9	(213,824)	58	62	(4)
Hill	2,384,262	1.2	3,191,852	1.0	(807,590)	52	66	(14)
Dawson	2,338,550	1.1	2,882,697	0.9	(544,146)	63	76	(13)
Beaverhead	2,200,708	1.1	2,931,620	0.9	(730,912)	33	40	(7)
Valley	2,094,697	1.0	2,825,718	0.9	(731,021)	50	64	(14)
Lewis & Clark	1,593,097	0.8	3,384,128	1.0	(1,791,031)	35	53	(18)
Madison	1,249,190	0.6	1,598,465	0.5	(349,275)	12	16	(4)
Choteau	1,115,503	0.5	1,354,359	0.4	(238,856)	23	29	(6)
Blaine	1,005,638	0.5	1,280,964	0.4	(275,327)	23	28	(5)
Rosebud	965,952	0.5	1,348,552	0.4	(382,600)	21	27	(6)
Ravalli	956,711	0.5	1,135,695	0.4	(178,984)	11	13	(2)
Phillips	931,172	0.5	1,287,123	0.4	(355,951)	21	26	(5)
Broadwater	923,496	0.4	1,253,914	0.4	(330,419)	23	31	(8)
Fergus	844,929	0.4	1,359,224	0.4	(514,295)	17	27	(10)
Silver Bow	833,575	0.4	1,569,162	0.5	(735,587)	14	18	(4)
Glacier	799,882	0.4	1,212,288	0.4	(412,405)	16	21	(5)
Jefferson	787,636	0.4	548,910	0.2	238,727	11	9	2
Bighorn	630,271	0.3	732,771	0.2	(102,500)	14	16	(2)
Sweet Grass	571,798	0.3	672,597	0.2	(100,800)	9	10	(1)
Fallon	485,026	0.2	656,274	0.2	(171,248)	10	14	(4)
Musselshell	458,469	0.2	541,124	0.2	(82,654)	11	13	(2)
Powell	362,642	0.2	439,705	0.1	(77,064)	7	8	(1)
Lincoln	312,810	0.2	525,617	0.2	(212,806)	5	7	(2)
Wheatland	304,146	0.1	573,717	0.2	(269,571)	7	11	(4)
Sheridan	269,705	0.1	468,893	0.1	(199,188)	11	14	(3)
Teton	223,543	0.1	520,222	0.2	(296,679)	7	12	(5)
Pondera	191,403	0.1	196,679	0.1	(5,276)	4	4	0
Meagher	179,760	0.1	256,060	0.1	(76,301)	6	8	(2)
Daniels	173,216	0.1	47,980	0.0	125,235	3	1	2
McCone	151,091	0.1	158,889	0.0	(7,798)	4	4	0
Treasure	118,223	0.1	119,636	0.0	(1,413)	1	1	0
Mineral	104,358	0.1	110,491	0.0	(6,132)	1	1	0
Garfield	103,579	0.1	107,325	0.0	(3,746)	2	2	0
Deer Lodge	83,949	0.0	196,925	0.1	(112,976)	4	9	(5)
Prairie	76,850	0.0	80,046	0.0	(3,196)	2	2	0
Wibaux	70,842	0.0	76,962	0.0	(6,119)	3	3	0
Carter	65,036	0.0	68,394	0.0	(3,357)	2	2	0
Golden Valley	55,399	0.0	87,711	0.0	(32,312)	1	2	(1)
Judith Basin	53,055	0.0	54,356	0.0	(1,301)	1	1	0
Toole	43,112	0.0	50,161	0.0	(7,049)	3	3	0
Granite	36,405	0.0	37,004	0.0	(599)	1	1	0
Powder River	31,162	0.0	4,398	0.0	26,764	1	1	0
Liberty	20,420	0.0	21,912	0.0	(1,493)	1	1	0
Total	205,861,209	100.0	324,037,957	100.0	(118,176,748)	3,053	4,360	(1,307)

COAL TAX TRUST LOANS



Created in 1984 as part of the "Build Montana" program, this program invests Coal Tax Trust funds in Montana to stimulate the state's economy. State law authorizes the Board to invest the Trust to increase employment and business opportunities, while maintaining and improving the state's physical environment. The "other" portion of the graph is comprised of these loans:

DNRC - $46.4 Million
Science & Tech - $14.4 Million
Dep. of Justice - 1.9 Million
Facilities Finance - 1.5 Million

Loan Types – Five loans types are available in the In-State Investment Program, some of which offer a job credit interest rate reduction equal to 0.05 percent for each job created, up to a maximum reduction of 2.5 percent.

The Federal Guaranteed Loan Program purchases the guaranteed portion of loans, guaranteed by the Small Business Administration, the Bureau of Indian Affairs, the Rural Business and Cooperative Service, and the Economic Development Administration. Loan proceeds may be used for working capital, inventory, equipment, real property, or similar items. At year-end 2003, this Program had $63.58 million in loan principal outstanding, or 36.8 percent of total outstanding Commercial Loan principal.

The Business Loan Participation Program purchases from originating financial institutions up to 80 percent of a participation loan. Unencumbered land, buildings, and equipment may be financed with the loan proceeds. The financial institutions charge a fee to service the loan and the Board's loan is collateralized proportionally to the Board's share of the loan. At year-end 2003, this Program had $80.46 million in loan principal outstanding, or 46.6 percent of total outstanding Commercial Loan principal.

The Economic Development Linked Deposit Program offers businesses long-term, fixed-rate financing for working capital, inventory, or real property. The Board places a long-term deposit at a pre-established rate with the financial institution originating the loan. The lender assumes all loan risk and is assured a specific "spread" for the term of the loan. At year-end 2003, this Program had $12.77 million in loan principal outstanding, or 7.4 percent of total outstanding Commercial Loan principal.

The Infrastructure Loan Program provides loans to eligible local governments for constructing infrastructure required by job creating businesses in their jurisdiction. At year-end 2003, this Program had $9.05 million in loan principal outstanding. Total loans outstanding in this Program are limited by law to $50.0 million.

The Value-added Loan Program provides low interest loans to value-added type businesses that create or retain jobs. At year-end 2003, this Program had $6.85 million in loan principal outstanding. Total loans outstanding in this Program are limited by law to $50.0 million**.**

Loan Yield - On June 30, 2003, the average weighted yield of all outstanding in-state investment loans, excluding Value-Added Loans whose interest rates are set by law, was 6.85 percent.

Loans From Inception By County Annual Change At June 30

County	Through 2003	% Of Total	Through 2002	% Of Total	02-03 $ Increase	2003 <# Loans>	2002	02-03 Inc
Missoula	78,819,628	19.8	62,969,214	18.5	15,850,414	201	178	23
Gallatin	53,378,917	13.4	40,793,911	12.0	12,585,006	102	89	13
Yellowstone	48,371,543	12.1	43,965,151	12.9	4,406,393	109	104	5
Cascade	30,739,912	7.7	22,035,810	6.5	8,704,102	37	33	4
Flathead	28,304,978	7.1	27,540,920	8.1	764,057	75	72	3
Lewis & Clark	24,659,664	6.2	20,695,672	6.1	3,963,991	83	76	7
Lake	19,432,991	4.9	18,782,790	5.5	650,201	92	90	2
Park	17,260,860	4.3	16,162,177	4.7	1,098,683	31	29	2
Ravalli	14,987,006	3.8	12,281,067	3.6	2,705,938	48	47	1
Madison	13,566,731	3.4	12,302,182	3.6	1,264,548	69	64	5
Beaverhead	11,150,710	2.8	11,150,710	3.3	0	30	30	0
Stillwater	8,385,297	2.1	8,238,285	2.4	147,012	45	42	3
Sanders	6,258,630	1.6	2,721,699	0.8	3,536,931	15	10	5
Silver Bow	5,151,986	1.3	5,151,986	1.5	0	8	8	0
Blaine	4,334,612	1.1	4,040,956	1.2	293,656	27	26	1
Richland	3,353,633	0.8	2,943,573	0.9	410,060	24	22	2
Roosevelt	2,972,856	0.7	2,972,856	0.9	0	7	7	0
Carbon	2,904,586	0.7	2,268,132	0.7	636,454	13	10	3
Jefferson	2,653,136	0.7	2,448,883	0.7	204,253	11	10	1
Lincoln	1,923,608	0.5	1,923,608	0.6	0	6	6	0
Valley	1,906,399	0.5	1,906,399	0.6	0	15	15	0
Custer	1,725,449	0.4	1,725,449	0.5	0	2	2	0
Mineral	1,611,093	0.4	1,611,093	0.5	0	3	3	0
Granite	1,524,095	0.4	1,524,095	0.4	0	6	6	0
Hill	1,511,297	0.4	1,511,297	0.4	0	9	9	0
Meagher	1,424,517	0.4	1,424,517	0.4	0	5	5	0
Choteau	1,276,579	0.3	1,276,579	0.4	0	3	3	0
Fergus	1,219,955	0.3	1,219,955	0.4	0	3	3	0
Phillips	1,020,139	0.3	1,020,139	0.3	0	3	3	0
Dawson	874,285	0.2	874,285	0.3	0	1	1	0
Sweet Grass	751,737	0.2	751,737	0.2	0	3	3	0
Bighorn	676,400	0.2	676,400	0.2	0	3	3	0
Powell	616,500	0.2	616,500	0.2	0	1	1	0
Toole	492,707	0.1	492,707	0.1	0	1	1	0
Rosebud	478,562	0.1	478,562	0.1	0	1	1	0
Fallon	476,429	0.1	476,429	0.1	0	2	2	0
Broadwater	463,199	0.1	463,199	0.1	0	3	3	0
Liberty	455,439	0.1	455,439	0.1	0	3	3	0
Pondera	425,000	0.1	425,000	0.1	0	1	1	0
McCone	295,148	0.1	295,148	0.1	0	3	3	0
Musselshell	163,000	0.0	163,000	0.0	0	1	1	0
Wibaux	90,000	0.0	90,000	0.0	0	1	1	0
Powder River	57,105	0.0	57,105	0.0	0	1	1	0
Total	398,146,315	100.0	340,924,616	100.0	57,221,699	1,107	1,027	80

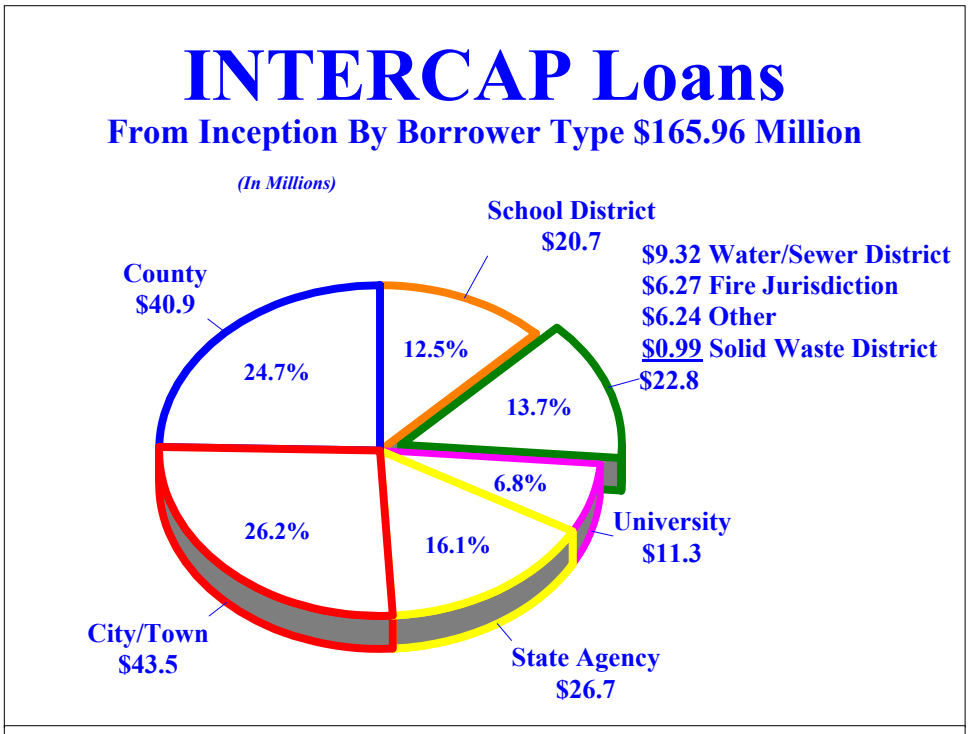
Commercial Loan By Sector Annual Change At June 30

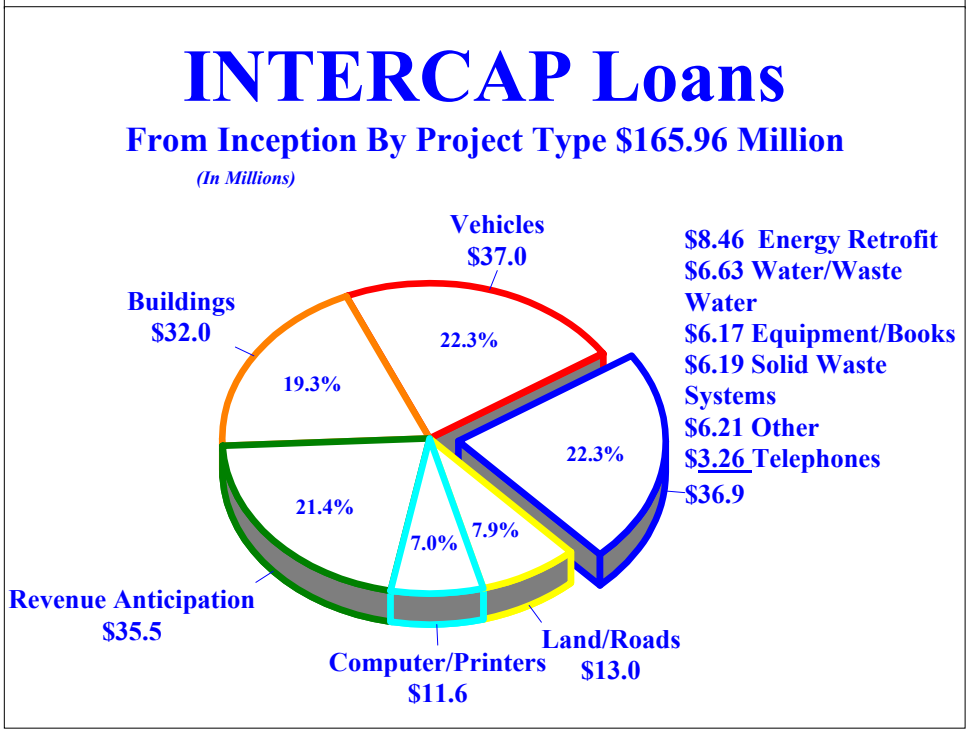
Investment Type	2003 Book Value	% Of Total	2002 Book Value	% Of Total	$ Change	% Change
Service Industry	135,974,754	34.2	105,208,936	30.9	30,765,818	29.2
Manufacturing	64,112,610	16.1	61,177,756	17.9	2,934,854	4.8
Retail Trade	64,442,209	16.2	52,266,214	15.3	12,175,995	23.3
Agriculture/Forestry/Fishing	50,973,626	12.8	48,004,033	14.1	2,969,593	6.2
Finance/Insurance/Real Estate	62,232,980	15.6	56,955,391	16.7	5,277,589	9.3
Transportation/Utilities/Comm.	7,732,029	1.9	7,732,029	2.3	0	0.0
Wholesale Trade	5,808,507	1.5	4,342,721	1.3	1,465,786	33.8
Construction	5,943,839	1.5	4,311,775	1.3	1,632,064	37.9
Mining	925,760	0.2	925,760	0.3	0	0.0
Total	398,146,315	100.0	340,924,616	100.0	57,221,699	16.8

Loan Losses/Arrears – The number of loans in this program in arrears 90 or more days decreased from .20 percent of total outstanding loans at year-end 2002 to .08 percent of outstanding loans at year-end 2003. These arrears ratios compare to 1.20 percent and .80 percent, respectively for Montana* financial institutions during the period. There were no loans losses in 2003. A loan principal balance of $206,599 was written off in 2002.

* Source: Total FDIC Past Due & Non Accrual as of 3/31/03

BOND PROGRAMS





INTERCAP - The Board administers several bond programs under the Montana Economic Development Bond and the Municipal Finance Consolidation Acts, created as part of the "Build Montana" program in 1984.

The INTERCAP program lends funds to eligible governments for a variety of purposes. The upper graph depicts the types of borrowers using the program since its inception. Since 1987, 370 eligible governments have received 888 loans, totaling $165.96 million.

The lower graph shows the types of projects for which loans were made since program inception. At June 30, 2003, there was $52.77 million in outstanding loan balances.

INTERCAP loans are funded with proceeds from bonds issued by the Board. Since the program's inception, the Board has issued $90.5 million in bonds with $72.19 million outstanding at June 30, 2003.

Loan interest rates, which are reset each February 16 based on the interest on the bonds funding the loans, were set at 2.85 percent on February 16, 2003.

Other bond programs managed by the Board are**:**

- ***School District Pooled Refunding Program***

In 1991 the Board purchased general obligation refunding bonds of participating school districts, enabling the districts to refinance their outstanding bonds at a lower interest rate. The 16 school districts participating in this $6.234 million bond issue saved a total of $577,600 in interest over the life of the refunding bonds. Although this Program is inactive, it could be re-activated given sufficient demand.

- ***Pooled Irrigation Program***

Five irrigation districts participated in this Program that prepaid their outstanding loans to the federal Bureau of Reclamation. The Board issued bonds of $4.976 million in 1988 to prepay $15.6 million of non-interest bearing federal loans held by the districts. The Board lent the bond proceeds to the districts at an average 7.20 percent interest. Although the districts paid off non-interest federal loans with interest bearing loans, they saved a total of $5.9 million, because the federal loans were prepaid at steep discounts, thereby significantly lowering the amount of principal owed by the districts.

- ***Qualified Zone Academy Bond Program (QZAB)***

This program allows qualifying school districts to borrow money at no or nominal interest rates by issuing qualified zone academy bonds. In December 2000 the Board issued $750,000 for a school district to finance the costs of remodeling its existing school facilities. At June 30, 2003, there was $750,000 in bonds outstanding.

Economic Development Bond Act

- ***Stand Alone Economic Development Bond Program***

This Program provides qualifying businesses access to tax-exempt funds and the Board has issued bonds to finance several projects. The Board acts as a legal funding conduit only and is not pecuniarily liable for the repayment of the bonds. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/03 Balance
Farmer's Union	08/85	3,925,000	3,925,000
Colstrip	10/89	60,800,000	57,300,000
BGI	07/93	118,345,000	117,345,000
Stillwater Mining	07/00	30,000,000	30,000,000
Gainey Foundation	10/02	6,000,000	6,000,000
Total		**219,070,000**	**214,570,000**

- ***Montana Conservation Reserve Payment (CRP) Enhancement Program***

This Program provides loans to Montana farmers to refinance outstanding loans and/or to purchase additional land and farm equipment. The borrowers assign their federal CRP contracts to the Board in exchange for a loan ranging from 60 percent to 75 percent of the remaining payments on the CRP contracts. When the Program began bonds were issued to provide funding for the loans. Recently, the loans have been funded from the Trust Fund Bond Pool as an investment. Loan interest rates are typically set at 0.50 higher than the interest set by the Trust Fund Bond Pool manager. A total of 229 loans, totaling $30.03 million have been funded under this Program**.**

- ***Pooled Economic Development Bond Program***

This Program, inactive since 1986 due to federal tax law revisions, provided loans to small businesses to expand and improve their facilities. The Board funded the loans by issuing tax-exempt bonds. Except

for a pledge of revenues and a guaranty fund, the Board has no pecuniary liability under this Program. Although there are two loans outstanding in this program, the bonds issued to fund the loans have been repaid.

The Bond Program financial statements begin on Page 68 of Appendix B**.**

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
Pubilc Employees Retirement System	21,603,076	845,684	15,088,147	5,186,706	8,799,901	66,006,557		117,530,071
Teachers Retirement	23,846,524	578,281	11,827,628	4,082,530	6,872,271	51,056,593		98,263,826
Coal Severance Tax Income Fund	14,743,622	388,276					21,112,647	36,244,545
Trust And Legacy		68,370					29,146,745	29,215,115
State Fund Insurance	28,480,698	576,650						29,057,347
STIP Local Government		9,793,753						9,793,753
UCFRB Restoration Fund	1,047,042	100,150					8,363,301	9,510,494
TSEF Income Fund	1,330,123	126,401					5,718,545	7,175,069
Resource Indemnity Trust Income Fun		13,072					7,161,271	7,174,343
SST/OU Remedial Action	2,865,097	122,709					3,407,749	6,395,555
General Fund	4,875,958	1,490,481						6,366,439
Old State Fund	5,808,777	236,099						6,044,875
State Policemen Retirement Reserve	382,220	41,500	691,614	247,087	410,438	3,587,681		5,360,539
Sheriffs Retirement	425,850	46,992	681,719	234,828	401,802	3,558,141		5,349,332
Firefighters Unified Retirement	331,849	38,227	659,238	234,247	386,552	3,419,341		5,069,454
Highway Patrol Retirement	584,565	23,450	396,047	135,453	230,775	2,071,889		3,442,178
Tobacco Settlement Income		13,958					1,816,256	1,830,214
Montana Judges Retirement	221,983	15,936	219,678	74,729	128,991	1,148,221		1,809,537
Game Wardens Retirement	(21,591)	21,945	196,532	66,686	117,155	1,022,263		1,402,990
Montana Pole Remedial	477,264	139,977					670,897	1,288,137
Coal Tax-FWP Part Acquisition	11,113	2,596					1,101,341	1,115,050
UCFRB Assess/Litigation		202					901,415	901,617
TSEF Region Water Income		29,598					864,660	894,259
General License Account	468,535	325,122						793,657
Volunteer Firefighter Retirement	16,232	6,847	94,283	33,210	57,481	505,914		713,967
Group Benefits Claims	558,098	52,148						610,246
Retirement Funds Bond Pool		596,594						596,594
Trust Funds Bond Pool		587,509						587,509
FWP Wildlife Mitigation Fund	455,161	68,384						523,544
Highways Special Revenue		509,662						509,662
UM-MSO Designated		22,128					420,921	443,049
UM-MSO Unrestricted		283,247					122,603	405,851
Zortman/Landusky Long Term	395,809	1,250						397,059
Wildlife Habitat Trust	309,809	19,338						329,147
MSU General Operating		321,656						321,656
Cultural Trust	2,501	1,135					310,495	314,131
Noxious Weed Management Trust	263,966	41,422						305,389
FWP Real Property Trust	232,868	9,446						242,314
AML Trust Fund	211,536	16,234						227,770
MSU Auxiliary Funds		216,990						216,990
Common School Permanent Trust		188,794						188,794
MT Oil and Gas Production Tax		171,422						171,422
UM-MSO Endowments	53,193	2,924	11,019				100,197	167,334
MUS Group Insurance		144,236						144,236
UM-MSO Auxiliary		103,714					35,884	139,598
UM-MSO Renewal and Replacement		83,137					45,990	129,126
MSU Renewal and Replacement		119,287						119,287
U.S. Dept Ed / GSL Reserve	33,189	81,316						114,506
MSU Designated Funds		113,673						113,673
MSU-Billings General Operating		113,298						113,298
Subsequent Injuiry	110,134	3,120						113,254
CST Bond Unrestricted Reserve		93,209						93,209
Wildlife Habitat		85,691						85,691
Research & Commercial		81,894						81,894
2002B LRBP Bonds		71,284						71,284
Hail Insurance		66,896						66,896
Orphan Share Fund		62,387						62,387
MSU-Billings Renewal		60,183						60,183
Market Based Outfitter Combo Sales		56,582						56,582
MSU -AG General Operating		55,267						55,267
MSU Retirement		54,148						54,148

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
UM-TECH Unrestricted		50,480						50,480
UM-TECH Student Loans	42,452	2,054	2,118				1,417	48,041
Inspection And Control		46,202						46,202
Long Range Building		44,763						44,763
2000D IT Bonds		42,454						42,454
HUD Section 8 Housing Program		40,617						40,617
MSU-Billings Auxiliary		39,474						39,474
Enhanced 9-1-1 Emergency		36,324						36,324
U & I Tax Benefit		36,259						36,259
UM-MSO Agency		35,605						35,605
Science and Technology	34,941							34,941
Oil & Gas ERA		34,566						34,566
MSU Unexpended Plant		34,496						34,496
UM-MSO Restricted		25,647					8,463	34,110
457 Deferred Compensation Plan		32,282						32,282
C R Kendall Bond Forfeit		29,023						29,023
Upland Game Bird Habitat		28,515						28,515
CST 2001D Refunding Debt Service		27,717						27,717
1987 Debt Service Bond		27,281						27,281
Rural Development and Rehabilitation		26,771						26,771
Zortman Reclamation Short Term		24,596						24,596
MSU Loan Funds		24,068						24,068
Health Facilities Authority		23,559						23,559
Wheat and Barley Researh		22,216						22,216
OSM Trust Fund - Coal		21,484						21,484
MSU-Nrthern Genl Oper		20,936						20,936
Guaranteed Student Loan		20,734						20,734
2001B LRBP Bonds		19,043						19,043
Housing Trust Fund		18,880						18,880
Petroleum Storage Tank		18,655						18,655
School Flexibility Account		18,593						18,593
MSU Restricted Funds		18,564						18,564
UM-Wstern Unrestricted		17,167						17,167
Habitat Trust		17,021						17,021
MSU-GCOT Unexpended Plant		16,378						16,378
GO Bond Debt Service-Renewed		16,290						16,290
Water Storage		16,201						16,201
MSU-EXT Designated Fund		15,441						15,441
UM-TECH Restricted		6,323					8,937	15,260
UM-MSO Student Loans		15,202						15,202
Mountain Sheep Account		14,548						14,548
Hard Rock Mining Reclamation		14,505						14,505
Forest Reserve Shared		14,402						14,402
Energy Conservation: Exxon		14,368						14,368
Coal Tax Trust Account		13,943						13,943
UM-TECH Unexpended Plant		13,611						13,611
Enterprise Fund		12,821						12,821
State Lottery Fund		12,508						12,508
Montana Heritage Preservation		12,075						12,075
MSU-Billings Designated		11,778						11,778
Cashed Plan II Securi		11,289						11,289
MSU-EXT General Operating		10,945						10,945
GO 01 SBP Debt Service		10,812						10,812
CST 96A Debt Service		10,625						10,625
PERS Educational Program		10,374						10,374
Fishing Access		10,177						10,177
Juvenile Accountabiliy		9,947						9,947
Pegasus - Basin Mine		9,812						9,812
MSU-AG Restricted Fund		9,553						9,553
GO 2001E Taxable Private Proceeds		9,509						9,509
2000C LRBP Bonds		9,364						9,364

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
Warm Water Fish Stamp		9,364						9,364
Protest Oil/Gas Royal		9,266						9,266
Rural Physicians Trust		9,232						9,232
UM-HCOT Unrestricted		9,173						9,173
Uninsured Employer Fund		8,981						8,981
Treasure State Endowment		8,613						8,613
MSU-GCOT Designated Fund		8,245						8,245
Fisheries Mitigation Private		8,169						8,169
Pesticide Management		7,956						7,956
River Restoration Account		7,948						7,948
Affordable House Revolving Fund		7,828						7,828
MSU-Billings Unexpended		7,562						7,562
BOH Financial Program		7,554						7,554
State Lands Resource Development		7,547						7,547
1998B LRBP Bonds		7,536						7,536
UM-Western Auxiliary		7,431						7,431
2001C IT Bonds		7,272						7,272
CST 2001E Tax Ex Debt Service		7,254						7,254
Pegasus Bankruptcy Operations		7,186						7,186
UM-TECH Renewal and Replacement		7,018						7,018
CST 2001F Taxable Debt Service		6,942						6,942
MSU-GCOT General Operation		6,826						6,826
Charles Bair Trust		3,440	3,355					6,795
457 Plan - Administration		6,698						6,698
Rail Construction Trust		6,644						6,644
Real Estate Recovery		6,575						6,575
Energy Conservation: Stripper		6,428						6,428
Household Finance Settlement		6,176						6,176
2003A LRBP Bonds		6,024						6,024
Alternative Energy Loan Fund		5,805						5,805
Section 8FSS Escrow		5,566						5,566
Landusky Reel		5,560						5,560
Waterfowl Stamp		5,142						5,142
MSU-Billings Loan Fund		5,088						5,088
James H. Bradley Memorial		451	4,625					5,076
Wildlife Mitigation Private		5,008						5,008
MSU-AG Renewal and Replacement		4,982						4,982
Thomas Teakle Trust Fund		575	3,990					4,565
PERS Defined Contribution		4,563						4,563
HFA Loan Program		4,505						4,505
UM-Western Renew and Replacement		4,499						4,499
Development Finance Bonds		4,473						4,473
MSU-GCOT Auxiliary Fund		4,274						4,274
EDA Revolving Loan Fund		4,187						4,187
Unlocated Mineral Owners Trust		4,026						4,026
Broadwater Irrigation		4,025						4,025
Real Estate Trust		3,910						3,910
UM-Western Unexpended		3,704						3,704
Moore-Sipple Connection		3,646						3,646
CST 2001B Taxable Proceeds		3,628						3,628
Pest Ag Chemical Group		3,495						3,495
SEC8 Project Based Assistance		3,476						3,476
SOS Election Federal Grant Fund		3,420						3,420
Foster Children's Trust		3,411						3,411
1999C LRBP Bond		3,255						3,255
GO SBP Debt Service		3,184						3,184
MSU Endowment Funds		3,174						3,174
UM-HCOT Unexpended Plant		3,166						3,166
BVSL Special Revenue Fund		3,020						3,020
Off Hwy Vehicle Park		3,018						3,018
Montana Arts Council		2,698						2,698

Appendix A - Total Income By Fund

Account Description	Investment Income	STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
		<----------Pool Distributions---------->						
Special Law Enforcement		2,698						2,698
GO Bond Loan Loss Reserve		2,674						2,674
Produce Account		2,596						2,596
OSM Trust Fund - Acid		2,548						2,548
CST OIC Refunding Debt Service		2,516						2,516
Claiborne-Ortenberg-MHP Trust		2,493						2,493
Lvstk Per Capita Fees		2,475						2,475
Hazardous Waste-CERCL		2,456						2,456
State-Tribal Economic Development		2,357						2,357
1996D LRBP Bonds		2,239						2,239
Pegasus - Beal Mountain		2,082						2,082
MSU-Northern Loan Fun		2,023						2,023
Milk Control Bureau		1,981						1,981
MSU-AG Unexpended Plant		1,936						1,936
Flexible Spending Fund		1,922						1,922
Environmental Rehab and Response		1,898						1,898
Cashed Plan I Securit		1,846						1,846
UM-Forest Experimental Station		1,828						1,828
Tongue River Fed		1,813						1,813
Commercial Feed		1,798						1,798
Environmental Quality		1,748						1,748
Fishing Access Site		1,736						1,736
MSU Agency Funds		1,679						1,679
CST 92B Debt Service		1,653						1,653
Seven Up Pete Interest Bearing		1,586						1,586
MSU-FIRE General Operating		1,516						1,516
MSU-GCOT Retirement		1,502						1,502
1998C Information		1,488						1,488
Montana Pole		1,465						1,465
Acquisitions Trust		918	546					1,464
Montana State Library		1,379						1,379
Merritt-Wheeler Memorial		457	899					1,355
UM-TECH Designated		1,355						1,355
Oil and Gas Damage Mitigation		1,352						1,352
MSU-Billings Restricted		1,308						1,308
Paddlefish Roe Account		1,273						1,273
MSU-GCOT Renewal and Rplacement		1,249						1,249
Off-Highway Vehicle		1,213						1,213
Snowmobile Registration		1,197						1,197
Grain Services		1,188						1,188
UM-Western Designated		1,158						1,158
MSU-FIRE Designated Fund		1,147						1,147
CST 2003 A Proceeds(Taxable)		1,087						1,087
MSU-Billings Retirement		1,087						1,087
UM-HCOT Endowments		791	263					1,055
CST 97B Debt Service		1,024						1,024
Sigerson Fellwship Exhibit Tour		1,022						1,022
Alfalfa Seed Assessment		995						995
Nongame Wildlife Account		986						986
UM-Western Agency		967						967
MSU-GCOT Restricted		929						929
GO 03 SBP Bond Proceeds		923						923
UM-Western Student Loans		905						905
Animal Health		904						904
CST 90 A Fisheries Mitigation		799						799
UM-Western Retirement		793						793
Snowmobile Registration		792						792
Commercial Dealer/Public Ware		742						742
Woodville Highways		717						717
UM-TECH Auxiliary		710						710
State Noxious Weed Forage		654						654

Appendix A - Total Income By Fund

Account Description	Investment Income	<----------Pool Distributions----------> STIP	MDEP	MTIP	MPEP	RFBP	TFBP	Total
Microbusiness Admin		541						541
Pegasus Reclamation/Zortman		533						533
General Fund		518						518
Washington Gulch Bond Forfeit		508						508
Upland Game Bird Planting		507						507
Stripper Wells Oil		471						471
Arbitrage Rebate		471						471
Stripper-SBP		454						454
Parks Enterprise Account		446						446
Stripper-SECP		421						421
Diamond Shamrock-Administration		408						408
Haynes Collection Trust		357						357
Churchill Endowment		315						315
Seed Account		311						311
CST 85A Debt Service		310						310
Mint Committee		309						309
Yellowstone Groundwater		308						308
Fert. Ag Chemical Group		289						289
Pegsaus Reclamation/Zortman		281						281
Moose Auction		281						281
Exxon-SECP		280						280
AG NB Private Funds		277						277
Broadwater Arbitration		241						241
Nursery Account		239						239
Anhydrous Ammonia Account		216						216
CST 87C Debt Service		213						213
CST 97A Debt Service		210						210
MSU-Northern Endowmen		190						190
FY01 CST Nontaxable Bond		182						182
Glacier General Insurance		178						178
Montana IA Disaster Fund		177						177
Exxon Oil Overcharge		170						170
Marketing Service		157						157
Organic Certification		140						140
MT CISCO Academies		129						129
Commercial Fertilizer		125						125
MSU-Billings Agency Funds		125						125
FY01 CST Taxable Bond		115						115
PERS-DC Disability		104						104
Off-Hwy Vehicle Acct		83						83
Alfalfa Leaf Cutting Bees		80						80
Broadwater O & M		77						77
Donated SAR - Aeronautics		76						76
MSU-Northern Auxiliar		75						75
UM-Western Endowments		71						71
Mansfield Statue Fund		60						60
Potato Research & Marketing		34						34
Basin Creek Mine - Luttrill		17						17
PERS-DC Education		13						13
Montana Domestic Equity Pool		13						13
Oil Overcharge Leave		5						5
Beginning Farm Loans		3						3
Exxon-ICP		1						1
GROSS INCOME	**110,202,593**	**21,307,235**	**29,881,700**	**10,295,475**	**17,405,365**	**132,376,599**	**81,319,735**	**402,788,703**
LESS ADMIN EXPENSE*	(592,569)	(24,144)	(983,233)	(1,785,948)	(3,056,067)	(262,848)		(6,704,809)
SUBTOTAL	**109,610,024**	**21,283,091**	**28,898,467**	**8,509,527**	**14,349,298**	**132,113,751**	**81,319,735**	**396,083,894**
LESS RFBP STIP INCOME		(596,594)						(596,594)
LESS TFBP STIP INCOME		(587,509)						(587,509)
LESS MDEP STIP INCOME		(13)						(13)
NET INCOME	**109,610,024**	**20,098,975**	**28,898,467**	**8,509,527**	**14,349,298**	**132,113,751**	**81,319,735**	**394,899,778**

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2003

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
Treasurer's Fund	US BANK MUNICIPAL INVESTOR ACCOUNT	1.600	12/30/30	138,412,389	138,412,389	138,412,389
Treasurer's Fund	US BANK SWEEP	0.300	07/01/03	1,592,849	1,592,849	1,592,849
	TOTAL CASH EQUIVALENT			**140,005,238**	**140,005,238**	**140,005,238**
Treasurer's Fund	FEDERAL FARM CREDIT BANKS	3.875	02/01/05	20,000,000	19,906,316	20,812,718
Treasurer's Fund	FEDERAL HOME LOAN BANKS	4.000	02/15/05	10,000,000	9,992,400	10,432,920
Treasurer's Fund	FEDERAL HOME LOAN MORTGAGE CORP	3.250	11/15/04	10,000,000	9,890,703	10,276,859
Treasurer's Fund	FEDERAL HOME LOAN MORTGAGE CORP	2.750	09/12/06	20,000,000	20,000,000	20,198,802
	GOVERNMENT DIRECT-INDIRECT			60,000,000	59,789,418	61,721,299
	TOTAL FIXED INCOME			**60,000,000**	**59,789,418**	**61,721,299**
Treasurer's Fund	SHORT TERM INVESTMENT POOL	NA	NA	147,708,039	147,708,039	147,708,039
TREASURERS FUND TOTAL				**347,713,277**	**347,502,695**	**349,434,576**
Abandoned Mine	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	53,142	53,138	53,483
	CORPORATE ASSET-BACKED			53,142	53,138	53,483
Abandoned Mine	ASHLAND INC	7.830	08/15/05	100,000	100,000	109,178
Abandoned Mine	CIT GROUP INC	5.625	05/17/04	100,000	99,966	103,176
Abandoned Mine	CITIGROUP INC	5.750	05/10/06	100,000	99,995	110,273
Abandoned Mine	GENERAL ELECRIC CAPITAL CORP	5.375	03/15/07	200,000	199,667	220,691
Abandoned Mine	GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	100,000	99,961	107,291
Abandoned Mine	J P MORGAN CHASE + CO	5.350	03/01/07	200,000	199,265	219,865
Abandoned Mine	SPRINT CAPITAL CORP	5.875	05/01/04	100,000	99,840	102,689
Abandoned Mine	WACHOVIA CORP	4.950	11/01/06	100,000	99,854	108,102
Abandoned Mine	WELLS FARGO + CO	5.900	05/21/06	100,000	99,929	110,825
	CORPORATE OTHER			1,100,000	1,098,477	1,192,090
Abandoned Mine	FEDERAL HOME LOAN BANKS	4.875	11/15/06	200,000	198,082	218,112
Abandoned Mine	FEDERAL HOME LOAN BANKS	4.875	02/15/07	400,000	399,936	437,565
Abandoned Mine	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	800,000	798,411	842,168
Abandoned Mine	FEDERAL HOME LOAN MORTGAGE CORP	7.000	07/15/05	200,000	200,993	222,194
Abandoned Mine	FEDERAL HOME LOAN MORTGAGE CORP	6.000	12/15/05	400,000	403,506	441,908
Abandoned Mine	FEDERAL HOME LOAN MORTGAGE CORP	2.750	09/12/06	500,000	500,000	504,970
	GOVERNMENT DIRECT-INDIRECT			2,500,000	2,500,927	2,666,917
	TOTAL FIXED INCOME			**3,653,142**	**3,652,542**	**3,912,490**
Abandoned Mine	SHORT TERM INVESTMENT POOL	NA	NA	1,310,258	1,310,258	1,310,258
ABANDONED MINE TOTAL				**4,963,400**	**4,962,800**	**5,222,748**
FWP Mitigation	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	132,856	132,846	133,707
	CORPORATE ASSET-BACKED			132,856	132,846	133,707
FWP Mitigation	ASHLAND INC	7.830	08/15/05	400,000	400,000	436,712
FWP Mitigation	CIT GROUP INC	5.625	05/17/04	150,000	149,949	154,764
FWP Mitigation	CITIGROUP INC	5.750	05/10/06	400,000	399,979	441,091
FWP Mitigation	CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	150,000	150,040	160,216
FWP Mitigation	GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	500,000	499,168	551,728
FWP Mitigation	J P MORGAN CHASE + CO	5.350	03/01/07	400,000	398,529	439,729
FWP Mitigation	MARSH AND MCLENNAN COS INC	6.625	06/15/04	150,000	149,677	157,467
FWP Mitigation	WACHOVIA CORP	4.950	11/01/06	400,000	399,415	432,408
FWP Mitigation	WELLS FARGO + CO	5.900	05/21/06	200,000	199,858	221,650
	CORPORATE OTHER			2,750,000	2,746,615	2,995,765
FWP Mitigation	FEDERAL HOME LOAN BANKS	4.875	11/15/06	800,000	792,327	872,447
FWP Mitigation	FEDERAL HOME LOAN BANKS	4.875	02/15/07	800,000	799,872	875,130
FWP Mitigation	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	1,200,000	1,196,301	1,263,252
FWP Mitigation	FEDERAL HOME LOAN MORTGAGE CORP	7.000	07/15/05	900,000	904,466	999,874
FWP Mitigation	FEDERAL HOME LOAN MORTGAGE CORP	6.000	12/15/05	500,000	504,383	552,385
FWP Mitigation	FEDERAL HOME LOAN MORTGAGE CORP	2.750	09/12/06	500,000	500,000	504,970
	GOVERNMENT DIRECT-INDIRECT			4,700,000	4,697,349	5,068,059
	TOTAL FIXED INCOME			**7,582,856**	**7,576,810**	**8,197,531**
FWP Mitigation	SHORT TERM INVESTMENT POOL	NA	NA	3,929,679	3,929,679	3,929,679

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2003

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
FWP MITIGATION TOTAL				**11,512,535**	**11,506,488**	**12,127,210**
Montana Pole	AMERICREDIT AUTOMOBILE TRUST	7.150	08/12/04	6,053	6,053	6,055
Montana Pole	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	212,570	212,553	213,931
	CORPORATE ASSET-BACKED			218,622	218,606	219,986
Montana Pole	ASHLAND INC	7.830	08/15/05	650,000	650,000	709,656
Montana Pole	GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	1,000,000	998,336	1,103,457
Montana Pole	WACHOVIA CORP	4.950	11/01/06	1,000,000	998,537	1,081,020
Montana Pole	WELLS FARGO + CO	5.900	05/21/06	200,000	199,858	221,650
	CORPORATE OTHER			2,850,000	2,846,731	3,115,782
Montana Pole	FEDERAL HOME LOAN BANKS	4.875	11/15/06	1,000,000	990,408	1,090,558
Montana Pole	FEDERAL HOME LOAN BANKS	4.875	02/15/07	700,000	699,888	765,739
Montana Pole	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	1,000,000	996,917	1,052,710
Montana Pole	FEDERAL HOME LOAN MORTGAGE CORP	2.750	09/12/06	2,000,000	2,000,000	2,019,880
	GOVERNMENT DIRECT-INDIRECT			4,700,000	4,687,214	4,928,888
Montana Pole	FNMA POOL 313999	6.000	02/01/13	765,289	761,623	803,075
	GOVERNMENT-MORTGAGE BACKED			765,289	761,623	803,075
Montana Pole	TRUST FUNDS BOND POOL	NA	NA	9,812,000	9,499,565	10,357,692
	TOTAL FIXED INCOME			**18,345,911**	**18,013,738**	**19,425,423**
Montana Pole	SHORT TERM INVESTMENT POOL	NA	NA	9,113,153	9,113,153	9,113,153
MONTANA POLE TOTAL				**27,459,064**	**27,126,891**	**28,538,576**
FWP License Account	AMERICREDIT AUTOMOBILE TRUST	7.150	08/12/04	6,053	6,053	6,055
FWP License Account	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	265,712	265,692	267,414
	CORPORATE ASSET-BACKED			271,765	271,744	273,469
FWP License Account	CIT GROUP INC	5.625	05/17/04	800,000	799,726	825,410
FWP License Account	GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	1,000,000	998,336	1,103,457
FWP License Account	J P MORGAN CHASE + CO	5.350	03/01/07	700,000	697,426	769,526
FWP License Account	WACHOVIA CORP	4.950	11/01/06	1,000,000	998,537	1,081,020
	CORPORATE OTHER			3,500,000	3,494,025	3,779,412
FWP License Account	FEDERAL HOME LOAN BANKS	4.875	11/15/06	2,000,000	1,980,817	2,181,117
FWP License Account	FEDERAL HOME LOAN BANKS	4.875	02/15/07	2,000,000	1,999,681	2,187,826
FWP License Account	FEDERAL HOME LOAN MORTGAGE CORP	2.750	09/12/06	1,300,000	1,300,000	1,312,922
	GOVERNMENT DIRECT-INDIRECT			5,300,000	5,280,498	5,681,864
	TOTAL FIXED INCOME			**9,071,765**	**9,046,267**	**9,734,745**
FWP License Account	SHORT TERM INVESTMENT POOL	NA	NA	19,129,717	19,129,717	19,129,717
FWP LICENSE ACCOUNT TOTAL				**28,201,482**	**28,175,985**	**28,864,462**
USDOE/MGSLP	SHORT TERM INVESTMENT POOL	NA	NA	3,545,212	3,545,212	3,545,212
FEDERAL GUARANTEED STUDENT LOAN TOTAL				**3,545,212**	**3,545,212**	**3,545,212**
Streamside Tailings	AMERICREDIT AUTOMOBILE TRUST	7.150	08/12/04	15,333	15,333	15,338
Streamside Tailings	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	1,062,848	1,062,767	1,069,657
Streamside Tailings	J P MORGAN CHASE COMM. MTG TRUST	4.200	07/12/35	4,875,164	4,899,112	5,070,915
	CORPORATE ASSET-BACKED			5,953,346	5,977,212	6,155,910
Streamside Tailings	ASHLAND INC	7.830	08/15/05	3,000,000	3,000,000	3,275,337
Streamside Tailings	GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	3,000,000	2,998,838	3,218,743
	CORPORATE OTHER			6,000,000	5,998,838	6,494,080
Streamside Tailings	ENSCO OFFSHORE CO	6.360	12/01/15	4,166,711	4,166,711	4,593,965
Streamside Tailings	FEDERAL HOME LOAN MORTGAGE CORP	5.125	05/13/13	5,000,000	5,000,000	5,055,182
Streamside Tailings	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	3,000,000	2,997,329	3,158,131
Streamside Tailings	FEDERAL HOME LOAN MORTGAGE CORP	5.740	01/21/09	3,000,000	2,833,814	3,077,446
Streamside Tailings	MAYBANK NAVIGATION LLC USGG XI	7.620	07/25/20	4,375,000	4,375,000	4,593,269
	GOVERNMENT DIRECT-INDIRECT			19,541,711	19,372,854	20,477,993
Streamside Tailings	FEDERAL HOME LOAN PC E00659	6.000	04/01/14	1,795,855	1,794,478	1,875,546
Streamside Tailings	FNMA POOL 254233	5.000	03/01/17	4,139,524	4,001,197	4,283,923
Streamside Tailings	GOVERNMENT NATIONAL MORTGAGE ASSN	2.196	04/16/20	2,991,807	2,981,576	2,978,248
	GOVERNMENT-MORTGAGE BACKED			8,927,187	8,777,251	9,137,717
Streamside Tailings	TRUST FUNDS BOND POOL	NA	NA	49,839,000	48,498,709	52,610,782

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
	TOTAL FIXED INCOME			**90,261,243**	**88,624,864**	**94,876,482**
Streamside Tailings	SHORT TERM INVESTMENT POOL	NA	NA	4,911,793	4,911,793	4,911,793
STREAMSIDE TAILINGS TOTAL				**95,173,036**	**93,536,658**	**99,788,275**
UCFRB Restoration	J P MORGAN CHASE COMM. MTG TRUST	4.200	07/12/35	4,875,164	4,899,112	5,070,915
	CORPORATE ASSET-BACKED			4,875,164	4,899,112	5,070,915
UCFRB Restoration	ASHLAND INC	7.830	08/15/05	1,500,000	1,500,000	1,637,669
UCFRB Restoration	FORD MOTOR TRUST CREDIT CORP	6.700	07/16/04	5,000,000	5,013,773	5,197,790
UCFRB Restoration	GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	3,000,000	2,998,838	3,218,743
	CORPORATE OTHER			9,500,000	9,512,611	10,054,201
UCFRB Restoration	ENSCO OFFSHORE CO	6.360	12/01/15	4,166,711	4,166,711	4,593,965
	GOVERNMENT DIRECT-INDIRECT			4,166,711	4,166,711	4,593,965
UCFRB Restoration	TRUST FUNDS BOND POOL	NA	NA	122,402,000	117,998,545	129,209,353
	TOTAL FIXED INCOME			**140,943,874**	**136,576,978**	**148,928,434**
UCFRB Restoration	SHORT TERM INVESTMENT POOL	NA	NA	6,242,632	6,242,632	6,242,632
UCFRB RESTORATION TOTAL				**147,186,507**	**142,819,611**	**155,171,067**
UCFRB Access	TRUST FUNDS BOND POOL	NA	NA	13,570,400	13,157,718	14,325,114
	TOTAL FIXED INCOME			**13,570,400**	**13,157,718**	**14,325,114**
UCFRB Access	SHORT TERM INVESTMENT POOL	NA	NA	23,063	23,063	23,063
UCFRB ACCESS TOTAL				**13,593,463**	**13,180,781**	**14,348,177**
State Fund Insurance	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	797,136	797,075	802,243
State Fund Insurance	J P MORGAN CHASE COMM. MTG TRUST	4.200	07/12/35	14,625,492	14,697,335	15,212,745
	CORPORATE ASSET-BACKED			15,422,628	15,494,411	16,014,987
State Fund Insurance	AMERICAN AIRLINE EQUIPMENT TRUST	6.977	05/23/21	4,065,701	4,054,336	3,333,874
State Fund Insurance	AMERICAN TRANS AIR EQUIPMENT TRUST	8.039	07/15/17	4,484,900	4,484,900	4,761,431
State Fund Insurance	ASHLAND INC	7.830	08/15/05	3,000,000	3,000,000	3,275,337
State Fund Insurance	BANK OF AMERICA	7.875	05/16/05	5,000,000	5,168,927	5,583,651
State Fund Insurance	BANK ONE TEXAS	6.250	02/15/08	2,000,000	1,924,399	2,294,683
State Fund Insurance	BANKBOSTON NA	6.375	03/25/08	2,000,000	1,928,947	2,278,711
State Fund Insurance	BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	3,000,000	3,037,288	3,371,052
State Fund Insurance	BURLINGTON NORTHN RR CO	6.940	01/02/14	3,748,199	3,748,199	4,493,457
State Fund Insurance	BURLINGTON NORTHERN SANTA FE RY	7.160	01/02/20	4,679,425	4,679,425	5,288,899
State Fund Insurance	CIT GROUP EQUIPMENT TRUST	6.490	01/05/21	8,152,315	8,152,315	8,363,907
State Fund Insurance	CIT GROUP INC	5.750	09/25/07	5,000,000	5,181,005	5,496,038
State Fund Insurance	CSX CORP	7.450	05/01/07	5,000,000	4,997,102	5,850,340
State Fund Insurance	CITIGROUP INC	6.000	02/21/12	5,000,000	4,998,401	5,703,307
State Fund Insurance	CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	6,000,000	5,996,554	6,408,659
State Fund Insurance	CONTINENTAL AIRLINES EQUIPMENT	6.563	02/15/12	5,000,000	5,024,369	5,289,050
State Fund Insurance	DELTA AIR LINES INC EQUIPMENT	6.417	07/02/12	10,000,000	9,959,721	10,462,500
State Fund Insurance	DETROIT EDISON CO	5.200	10/15/12	5,000,000	4,935,623	5,363,124
State Fund Insurance	ENSERCH CORP	6.375	02/01/04	3,000,000	2,984,669	3,062,729
State Fund Insurance	FMC CORP	6.375	09/01/03	2,000,000	1,999,356	2,005,000
State Fund Insurance	FIRST BANK N A	8.350	11/01/04	5,000,000	4,999,332	5,407,141
State Fund Insurance	FIRST CHICAGO CORP	6.375	01/30/09	2,000,000	1,892,339	2,303,999
State Fund Insurance	FIRST SECURITY CORP	6.875	11/15/06	5,000,000	4,996,939	5,730,682
State Fund Insurance	FIRST UNION CORP	7.050	08/01/05	5,000,000	4,987,426	5,521,324
State Fund Insurance	FORD MOTOR TRUST CREDIT CO	6.700	07/16/04	5,000,000	5,013,773	5,197,790
State Fund Insurance	GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	5,000,000	5,244,872	5,517,283
State Fund Insurance	GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	2,500,000	2,499,032	2,682,286
State Fund Insurance	GENERAL MOTORS ACCEPTANCE CORP	6.125	08/28/07	5,000,000	5,007,620	5,210,905
State Fund Insurance	KCT INTERMODAL TRANSPORTATION CORP	6.884	08/01/18	3,753,867	3,753,867	4,115,616
State Fund Insurance	K N ENERGY INC	6.650	03/01/05	5,000,000	5,031,611	5,353,270
State Fund Insurance	KEYCORP	7.500	06/15/06	5,000,000	4,997,106	5,713,098
State Fund Insurance	MARSH + MCLENNAN COS INC	7.125	06/15/09	3,000,000	2,995,568	3,604,248
State Fund Insurance	NATIONSBANK CORP	7.750	08/15/04	5,000,000	4,981,577	5,358,711
State Fund Insurance	NATIONWIDE FINANCIAL SERVICES INC	6.250	11/15/11	5,000,000	5,344,042	5,538,589
State Fund Insurance	NORFOLK SOUTHERN CORP	7.350	05/15/07	3,500,000	3,499,064	4,098,971

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2003

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
State Fund Insurance	NORTHWEST AIRLINES EQUIPMENT TRUST	6.810	08/01/21	4,417,909	4,353,593	4,373,730
State Fund Insurance	OLD REPUBLIC INTL CORP	7.000	06/15/07	3,000,000	2,999,358	3,485,691
State Fund Insurance	PPL MONTANA LLC	8.903	07/02/20	4,647,959	4,647,959	5,221,006
State Fund Insurance	SOUTHWEST GAS CORP	8.375	02/15/11	4,000,000	3,995,341	4,662,586
State Fund Insurance	UNION OIL CO CALIFORNIA	7.200	05/15/05	5,000,000	4,999,305	5,447,391
State Fund Insurance	UNION PACIFIC CORP	6.400	02/01/06	3,000,000	2,987,543	3,316,849
State Fund Insurance	UNION PACIFIC RESOURCES GROUP INC	7.000	10/15/06	5,000,000	4,990,323	5,697,631
State Fund Insurance	UNION TANK CAR CO	7.125	02/01/07	2,000,000	1,999,233	2,314,055
State Fund Insurance	WAL MART STORES INC EQUIPMENT TRUST	8.450	07/01/04	986,489	986,489	1,054,414
State Fund Insurance	WESTERN PROPERTIES	7.875	02/15/04	2,000,000	1,999,635	2,069,186
State Fund Insurance	WESTERN PROPERTIES	7.200	09/15/08	1,000,000	969,200	1,150,522
	CORPORATE OTHER			185,936,763	186,427,682	202,832,714
State Fund Insurance	ENSCO OFFSHORE CO	6.360	12/01/15	4,166,711	4,166,711	4,593,965
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	4.750	10/11/12	40,000,000	39,840,080	41,048,068
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	5.125	05/13/13	15,000,000	15,000,000	15,165,546
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	5.625	03/15/11	10,000,000	10,071,713	11,418,639
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	6.000	06/15/11	15,000,000	14,989,422	17,502,402
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	6.000	05/15/08	5,000,000	4,893,961	5,764,926
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	7.250	01/15/10	8,000,000	8,377,268	9,893,629
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	6.625	10/15/07	10,000,000	10,901,323	11,703,715
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	6.625	11/15/10	10,000,000	10,320,663	12,081,131
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	5.875	02/14/06	5,000,000	4,925,306	5,516,972
State Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	5.740	01/21/09	5,000,000	4,723,024	5,129,077
State Fund Insurance	GLOBAL INDUSTRIES LTD USGG XI	7.710	02/15/25	4,400,000	4,400,000	4,400,000
State Fund Insurance	GUARANTEED EXPORT TRUST PDVSA	6.280	06/15/04	705,882	705,882	731,520
State Fund Insurance	PERFORADORA CENT S A DE C V USGG XI	5.630	07/15/11	6,021,878	6,017,355	6,356,334
State Fund Insurance	ROWAN COS INC USGG XI	5.880	03/15/12	12,272,000	12,272,000	13,847,602
	GOVERNMENT DIRECT-INDIRECT			150,566,471	151,604,707	165,153,525
State Fund Insurance	FEDERAL HOME LOAN PC G10814	5.500	05/01/13	4,673,492	4,670,033	4,886,356
State Fund Insurance	FEDERAL HOME LOAN PC E00540	6.000	03/01/13	3,600,634	3,589,392	3,764,913
State Fund Insurance	FEDERAL HOME LOAN PC E00659	6.000	04/01/14	2,873,368	2,871,165	3,000,874
State Fund Insurance	FNMA POOL 190985	7.500	08/01/09	1,723,488	1,723,487	1,846,353
State Fund Insurance	FNMA POOL 254140	5.500	01/01/17	20,714,828	20,630,901	21,554,750
State Fund Insurance	FNMA POOL 254233	5.000	03/01/17	8,279,049	8,002,393	8,567,845
State Fund Insurance	FNMA POOL 254631	5.000	02/01/18	9,401,953	9,564,706	9,726,505
State Fund Insurance	FNMA POOL 303590	7.000	11/01/10	1,915,237	1,915,237	2,042,945
State Fund Insurance	FNMA POOL 572220	6.000	03/01/16	1,771,825	1,766,899	1,853,772
State Fund Insurance	FNMA POOL 592327	5.500	06/01/16	3,457,229	3,378,779	3,599,570
State Fund Insurance	GOVERNMENT NATIONAL MORTGAGE ASSN	2.196	04/16/20	9,972,690	9,938,587	9,927,494
	GOVERNMENT-MORTGAGE BACKED			68,383,794	68,051,580	70,771,376
State Fund Insurance	CASE CORP	6.250	12/01/03	2,000,000	1,999,371	2,007,500
State Fund Insurance	HOUSEHOLD FINANCIAL CORP	6.875	03/01/07	3,000,000	2,961,631	3,454,340
State Fund Insurance	HOUSEHOLD FINANCIAL CORP	6.500	01/24/06	5,000,000	5,036,880	5,550,799
State Fund Insurance	IBP FINANCIAL CO CANADA	7.450	06/01/07	4,000,000	3,998,918	4,340,000
State Fund Insurance	PANAMERICAN BEVERAGES INC	7.250	07/01/09	2,000,000	1,963,581	2,240,000
	YANKEE BONDS			16,000,000	15,960,381	17,592,639
	TOTAL FIXED INCOME			**436,309,656**	**437,538,760**	**472,365,241**
State Fund Insurance	BGI EQUITY INDEX FUND B	NA	NA	555,010	79,000,000	69,958,153
	TOTAL EQUITY			**555,010**	**79,000,000**	**69,958,153**
State Fund Insurance	SHORT TERM INVESTMENT POOL	NA	NA	29,965,376	29,965,376	29,965,376
STATE FUND TOTAL				**466,830,042**	**546,504,136**	**572,288,770**
Subsequent Injury	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	26,571	26,569	26,741
	CORPORATE ASSET-BACKED			26,571	26,569	26,741
Subsequent Injury	ASHLAND INC	7.830	08/15/05	50,000	50,000	54,589
Subsequent Injury	CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	50,000	49,971	53,405
Subsequent Injury	FIRST UNION CORP	7.100	08/15/04	50,000	49,967	53,081
Subsequent Injury	GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	100,000	99,834	110,346
Subsequent Injury	J P MORGAN CHASE + CO	5.350	03/01/07	100,000	99,632	109,932

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Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
Subsequent Injury	MARSH AND MCLENNAN COS INC	6.625	06/15/04	50,000	49,963	52,489
Subsequent Injury	SPRINT CAPITAL CORP	5.875	05/01/04	50,000	49,920	51,345
Subsequent Injury	WELLS FARGO + CO	5.900	05/21/06	100,000	99,929	110,825
	CORPORATE OTHER			550,000	549,216	596,012
Subsequent Injury	FEDERAL HOME LOAN BANKS	4.875	11/15/06	200,000	198,082	218,112
Subsequent Injury	FEDERAL HOME LOAN BANKS	4.875	02/15/07	100,000	99,984	109,391
Subsequent Injury	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	100,000	99,911	105,271
Subsequent Injury	FEDERAL HOME LOAN MORTGAGE CORP	7.000	07/15/05	100,000	100,496	111,097
Subsequent Injury	FEDERAL HOME LOAN MORTGAGE CORP	6.000	12/15/05	100,000	100,877	110,477
Subsequent Injury	FEDERAL HOME LOAN MORTGAGE CORP	2.750	09/12/06	200,000	200,000	201,988
	GOVERNMENT DIRECT-INDIRECT			800,000	799,349	856,336
	TOTAL FIXED INCOME			**1,376,571**	**1,375,135**	**1,479,089**
Subsequent Injury	SHORT TERM INVESTMENT POOL	NA	NA	418,544	418,544	418,544
SUBSEQUENT INJURY TOTAL				**1,795,116**	**1,793,679**	**1,897,634**
Old Fund Insurance	AMERICREDIT AUTOMOBILE	7.150	08/12/04	12,105	12,105	12,109
	CORPORATE ASSET-BACKED			12,105	12,105	12,109
Old Fund Insurance	ASHLAND INC	7.830	08/15/05	1,000,000	1,000,000	1,091,779
Old Fund Insurance	BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	1,000,000	1,012,602	1,123,684
Old Fund Insurance	CIT GROUP INC	5.625	05/17/04	3,000,000	2,998,973	3,095,287
Old Fund Insurance	CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	3,000,000	2,998,277	3,204,329
Old Fund Insurance	ENSERCH CORP	6.375	02/01/04	2,000,000	2,002,517	2,041,819
Old Fund Insurance	FMC CORP	6.375	09/01/03	1,000,000	999,678	1,002,500
Old Fund Insurance	GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	1,600,000	1,597,337	1,765,530
Old Fund Insurance	J P MORGAN CHASE + CO	5.350	03/01/07	3,000,000	2,988,970	3,297,968
Old Fund Insurance	K N ENERGY INC	6.650	03/01/05	2,000,000	2,012,645	2,141,308
Old Fund Insurance	UNION PACIFIC CORP	6.400	02/01/06	2,000,000	2,002,384	2,211,232
Old Fund Insurance	WACHOVIA CORP	4.950	11/01/06	2,000,000	1,997,074	2,162,039
	CORPORATE OTHER			21,600,000	21,610,457	23,137,476
Old Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	2,000,000	1,993,835	2,105,421
Old Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	6.625	10/15/07	5,000,000	5,290,902	5,851,858
Old Fund Insurance	FEDERAL HOME LOAN MORTGAGE CORP	5.250	06/15/06	5,000,000	5,031,326	5,490,183
Old Fund Insurance	NORTH AMERICAN SHIP BUILDING USGG XI	5.840	02/15/06	1,920,000	1,920,000	2,019,341
Old Fund Insurance	PERFORADORA CENT S A DE C V USGG XI	5.630	07/15/11	10,625,122	10,617,140	11,215,241
Old Fund Insurance	ROWAN COS INC USGG XI	5.880	03/15/12	8,180,000	8,180,000	9,230,230
Old Fund Insurance	TRICO MARINE INTERNATIONAL USGG XI	6.080	09/01/06	4,375,000	4,375,000	4,653,163
Old Fund Insurance	MAY BANK NAVIGATION CO LLC	5.900	09/16/13	2,794,000	2,794,000	3,146,435
	GOVERNMENT DIRECT-INDIRECT			39,894,122	40,202,202	43,711,870
Old Fund Insurance	FEDERAL HOME LOAN PC G10814	5.500	05/01/13	2,516,496	2,514,633	2,631,115
Old Fund Insurance	FEDERAL HOME LOAN PC G10173	6.000	01/01/09	672,199	670,111	701,188
Old Fund Insurance	FEDERAL HOME LOAN PC E00247	5.500	10/01/08	579,138	571,731	604,792
Old Fund Insurance	FEDERAL HOME LOAN PC E00540	6.000	03/01/13	1,200,211	1,196,464	1,254,971
Old Fund Insurance	FNMA POOL 313999	6.000	02/01/13	1,785,675	1,777,120	1,873,842
Old Fund Insurance	GOVERNMENT NATIONAL MORTGAGE ASSN	2.196	04/16/20	4,986,345	4,969,293	4,963,747
	GOVERNMENT-MORTGAGE BACKED			11,740,064	11,699,352	12,029,654
Old Fund Insurance	CASE CORP	6.250	12/01/03	3,000,000	2,999,057	3,011,250
	YANKEE BONDS			3,000,000	2,999,057	3,011,250
	TOTAL FIXED INCOME			**76,246,291**	**76,523,173**	**81,902,359**
Old Fund Insurance	SHORT TERM INVESTMENT POOL	NA	NA	4,738,975	4,738,975	4,738,975
OLD FUND TOTAL				**80,985,265**	**81,262,148**	**86,641,334**
Zortman/Landusky	FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/01/17	14,600,000	5,938,809	7,438,723
	GOVERNMENT DIRECT-INDIRECT			14,600,000	5,938,809	7,438,723
	TOTAL FIXED INCOME			**14,600,000**	**5,938,809**	**7,438,723**
Zortman/Landusky	SHORT TERM INVESTMENT POOL	NA	NA	39,052	39,052	39,052
ZORTMAN/LANDUSKY TOTAL				**14,639,052**	**5,977,861**	**7,477,775**
Group Benefits	CIT GROUP INC	5.625	05/17/04	500,000	499,829	515,881
Group Benefits	CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	500,000	499,713	534,055

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Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
Group Benefits	FIRST UNION CORP	7.100	08/15/04	850,000	849,434	902,372
Group Benefits	MARSH AND MCLENNAN COS INC	6.625	06/15/04	725,000	724,464	761,092
Group Benefits	SPRINT CAPITAL CORP	5.875	05/01/04	1,050,000	1,048,323	1,078,235
	CORPORATE OTHER			3,625,000	3,621,763	3,791,635
Group Benefits	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	450,000	448,613	473,720
	GOVERNMENT DIRECT-INDIRECT			450,000	448,613	473,720
	TOTAL FIXED INCOME			**4,075,000**	**4,070,376**	**4,265,355**
Group Benefits	SHORT TERM INVESTMENT POOL	NA	NA	5,371,926	5,371,926	5,371,926
GROUP BENEFITS TOTAL				**9,446,926**	**9,442,301**	**9,637,281**
Permanent Coal Trust	TRUST FUNDS BOND POOL	NA	NA	304,355,300	291,809,268	321,281,935
	TOTAL FIXED INCOME			**304,355,300**	**291,809,268**	**321,281,935**
Permanent Coal Trust	MONTANA IN-STATE LOANS	NA	NA	218,006,833	218,006,833	218,006,833
Permanent Coal Trust	SHORT TERM INVESTMENT POOL	NA	NA	32,634,056	32,634,056	32,634,056
Permanent Fund Inc.	SHORT TERM INVESTMENT POOL	NA	NA	3,170,180	3,170,180	3,170,180
CST Bond Fund	SHORT TERM INVESTMENT POOL	NA	NA	5,840,119	5,840,119	5,840,119
PERMANENT COAL TAX TRUST TOTAL				**564,006,488**	**551,460,456**	**580,933,123**
FWP Real Property	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	26,571	26,569	26,741
	CORPORATE ASSET-BACKED			26,571	26,569	26,741
FWP Real Property	ASHLAND INC	7.830	08/15/05	100,000	100,000	109,178
FWP Real Property	CIT GROUP INC	5.625	05/17/04	100,000	99,966	103,176
FWP Real Property	CITIGROUP INC	5.750	05/10/06	100,000	99,995	110,273
FWP Real Property	CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	100,000	99,943	106,811
FWP Real Property	GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	200,000	199,667	220,691
FWP Real Property	GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	100,000	99,961	107,291
FWP Real Property	J P MORGAN CHASE + CO	5.350	03/01/07	200,000	199,265	219,865
FWP Real Property	SPRINT CAPITAL CORP	5.875	05/01/04	100,000	99,840	102,689
FWP Real Property	WACHOVIA CORP	4.950	11/01/06	200,000	199,707	216,204
FWP Real Property	WELLS FARGO + CO	5.900	05/21/06	100,000	99,929	110,825
	CORPORATE OTHER			1,300,000	1,298,273	1,407,003
FWP Real Property	FEDERAL HOME LOAN BANKS	4.875	11/15/06	200,000	198,082	218,112
FWP Real Property	FEDERAL HOME LOAN BANKS	4.875	02/15/07	200,000	199,968	218,783
FWP Real Property	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	500,000	498,897	526,355
FWP Real Property	FEDERAL HOME LOAN MORTGAGE CORP	7.000	07/15/05	200,000	200,993	222,194
FWP Real Property	FEDERAL HOME LOAN MORTGAGE CORP	6.000	12/15/05	400,000	403,506	441,908
FWP Real Property	FEDERAL HOME LOAN MORTGAGE CORP	2.750	09/12/06	750,000	750,000	757,455
	GOVERNMENT DIRECT-INDIRECT			2,250,000	2,251,445	2,384,807
	TOTAL FIXED INCOME			**3,576,571**	**3,576,288**	**3,818,551**
FWP Real Property	SHORT TERM INVESTMENT POOL	NA	NA	797,383	797,383	797,383
FWP REAL PROPERTY TOTAL				**4,373,954**	**4,373,670**	**4,615,934**
Resource Indemnity Trust	TRUST FUNDS BOND POOL	NA	NA	104,735,000	99,999,976	110,559,808
	TOTAL FIXED INCOME			**104,735,000**	**99,999,976**	**110,559,808**
Resource Indemnity Trust	SHORT TERM INVESTMENT POOL	NA	NA	989	989	989
RESOURCE INDEMNITY TRUST TOTAL				**104,735,989**	**100,000,965**	**110,560,797**
Coal Tax Park Acquisition	TRUST FUNDS BOND POOL	NA	NA	16,133,000	15,761,270	17,030,232
	TOTAL FIXED INCOME			**16,133,000**	**15,761,270**	**17,030,232**
Coal Tax Park Acquisition	SHORT TERM INVESTMENT POOL	NA	NA	130,397	130,397	130,397
COAL TAX PARK ACQUISITION TOTAL				**16,263,397**	**15,891,667**	**17,160,629**
Wildlife Habitat	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	26,571	26,569	26,741
	CORPORATE ASSET-BACKED			26,571	26,569	26,741
Wildlife Habitat	ASHLAND INC	7.830	08/15/05	100,000	100,000	109,178
Wildlife Habitat	CIT GROUP INC	5.625	05/17/04	200,000	199,932	206,352
Wildlife Habitat	CITIGROUP INC	5.750	05/10/06	200,000	199,990	220,545
Wildlife Habitat	CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	100,000	99,943	106,811

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2003

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
Wildlife Habitat	GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	200,000	199,667	220,691
Wildlife Habitat	GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	200,000	199,923	214,583
Wildlife Habitat	J P MORGAN CHASE + CO	5.350	03/01/07	200,000	199,265	219,865
Wildlife Habitat	SPRINT CAPITAL CORP	5.875	05/01/04	100,000	99,840	102,689
Wildlife Habitat	WACHOVIA CORP	4.950	11/01/06	200,000	199,707	216,204
Wildlife Habitat	WELLS FARGO + CO	5.900	05/21/06	200,000	199,858	221,650
	CORPORATE OTHER			1,700,000	1,698,124	1,838,568
Wildlife Habitat	FEDERAL HOME LOAN BANKS	4.875	11/15/06	300,000	297,123	327,167
Wildlife Habitat	FEDERAL HOME LOAN BANKS	4.875	02/15/07	300,000	299,952	328,174
Wildlife Habitat	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	600,000	598,808	631,626
Wildlife Habitat	FEDERAL HOME LOAN MORTGAGE CORP	7.000	07/15/05	300,000	301,489	333,291
Wildlife Habitat	FEDERAL HOME LOAN MORTGAGE CORP	2.750	09/12/06	1,250,000	1,250,000	1,262,425
	GOVERNMENT DIRECT-INDIRECT			2,750,000	2,747,371	2,882,684
	TOTAL FIXED INCOME			**4,476,571**	**4,472,064**	**4,747,994**
Wildlife Habitat	SHORT TERM INVESTMENT POOL	NA	NA	1,570,572	1,570,572	1,570,572
WILDLIFE HABITAT TOTAL				**6,047,143**	**6,042,636**	**6,318,566**
Trust and Legacy Account	TRUST FUNDS BOND POOL	NA	NA	427,171,900	410,553,970	450,928,946
	TOTAL FIXED INCOME			**427,171,900**	**410,553,970**	**450,928,946**
TRUST AND LEGACY TOTAL				**427,171,900**	**410,553,970**	**450,928,946**
Weed Control	AMERICREDIT AUTOMOBILE TRUST	7.150	08/12/04	807	807	807
Weed Control	AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	53,142	53,138	53,483
	CORPORATE ASSET-BACKED			53,950	53,946	54,290
Weed Control	ASHLAND INC	7.830	08/15/05	100,000	100,000	109,178
Weed Control	CIT GROUP INC	5.625	05/17/04	150,000	149,949	154,764
Weed Control	CITIGROUP INC	5.750	05/10/06	200,000	199,990	220,545
Weed Control	CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	100,000	99,943	106,811
Weed Control	FIRST UNION CORP	7.100	08/15/04	100,000	100,025	106,161
Weed Control	GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	200,000	199,667	220,691
Weed Control	GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	100,000	99,961	107,291
Weed Control	J P MORGAN CHASE + CO	5.350	03/01/07	200,000	199,265	219,865
Weed Control	MARSH AND MCLENNAN COS INC	6.625	06/15/04	75,000	74,945	78,734
Weed Control	SPRINT CAPITAL CORP	5.875	05/01/04	100,000	99,840	102,689
Weed Control	WACHOVIA CORP	4.950	11/01/06	100,000	99,854	108,102
Weed Control	WELLS FARGO + CO	5.900	05/21/06	100,000	99,929	110,825
	CORPORATE OTHER			1,525,000	1,523,367	1,645,657
Weed Control	FEDERAL HOME LOAN BANKS	4.875	11/15/06	300,000	297,123	327,167
Weed Control	FEDERAL HOME LOAN BANKS	4.875	02/15/07	500,000	499,920	546,956
Weed Control	FEDERAL HOME LOAN MORTGAGE CORP	6.250	07/15/04	350,000	348,921	368,449
Weed Control	FEDERAL HOME LOAN MORTGAGE CORP	7.000	07/15/05	300,000	301,489	333,291
Weed Control	FEDERAL HOME LOAN MORTGAGE CORP	6.000	12/15/05	600,000	605,259	662,862
Weed Control	FEDERAL HOME LOAN MORTGAGE CORP	2.750	09/12/06	500,000	500,000	504,970
	GOVERNMENT DIRECT-INDIRECT			2,550,000	2,552,712	2,743,696
	TOTAL FIXED INCOME			**4,128,950**	**4,130,024**	**4,443,643**
Weed Control	SHORT TERM INVESTMENT POOL	NA	NA	868,859	868,859	868,859
WEED CONTROL TRUST TOTAL				**4,997,809**	**4,998,883**	**5,312,503**
Tobacco Trust	TRUST FUNDS BOND POOL	NA	NA	35,650,500	35,579,173	37,633,193
	TOTAL FIXED INCOME			**35,650,500**	**35,579,173**	**37,633,193**
Tobacco Trust	SHORT TERM INVESTMENT POOL	NA	NA	93,737	93,737	93,737
TOBACCO TRUST TOTAL				**35,744,237**	**35,672,910**	**37,726,930**
Coal Tax Cultural Trust	TRUST FUNDS BOND POOL	NA	NA	4,548,200	4,455,263	4,801,147
	TOTAL FIXED INCOME			**4,548,200**	**4,455,263**	**4,801,147**
Coal Tax Cultural Trust	SHORT TERM INVESTMENT POOL	NA	NA	59,912	59,912	59,912
COAL TAX CULTURAL TRUST TOTAL				**4,608,112**	**4,515,175**	**4,861,059**

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2003

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
Treasure State Water	TRUST FUNDS BOND POOL	NA	NA	15,133,600	14,913,908	15,975,251
	TOTAL FIXED INCOME			**15,133,600**	**14,913,908**	**15,975,251**
Treasure State Water	SHORT TERM INVESTMENT POOL	NA	NA	48,958	48,958	48,958
TREASURE STATE WATER TOTAL				**15,182,558**	**14,962,866**	**16,024,209**
Treasure State Endowment	TRUST FUNDS BOND POOL	NA	NA	90,197,200	89,014,980	95,213,492
	TOTAL FIXED INCOME			**90,197,200**	**89,014,980**	**95,213,492**
Treasure State Endowment	MONTANA IN-STATE LOANS	NA	NA	18,813,738	18,813,738	18,813,738
Treasure State Endowment	SHORT TERM INVESTMENT POOL	NA	NA	3,761,509	3,761,509	3,761,509
TREASURE STATE ENDOWMENT TOTAL				**112,772,446.99**	**111,590,227.29**	**117,788,739.01**
Pub. Emply. Retirement	RETIREMENT FUNDS BOND POOL	NA	NA	725,784,524	731,895,210	804,470,236
	TOTAL FIXED INCOME			**725,784,524**	**731,895,210**	**804,470,236**
Pub. Emply. Retirement	OCEAN WEST HOLDING CORP	NA	NA	100	15	17
Pub. Emply. Retirement	MONTANA PRIVATE EQUITY POOL	NA	NA	1,475,918	139,074,342	150,960,074
	PRIVATE EQUITY			1,476,018	139,074,357	150,960,091
Pub. Emply. Retirement	MONTANA INTERNATIONAL POOL	NA	NA	2,702,177	264,115,000	225,346,965
Pub. Emply. Retirement	MONTANA DOMESTIC EQUITY POOL	NA	NA	12,346,451	817,714,921	1,308,883,763
	STOCK TOTAL			15,048,628	1,081,829,921	1,534,230,728
Pub. Emply. Retirement	NINTH AVENUE, HELENA	NA	NA	489,187	489,187	565,413
Pub. Emply. Retirement	100 NORTH PARK AVENUE, HELENA	NA	NA	2,915,413	2,915,413	2,786,587
Pub. Emply. Retirement	CALIFORNIA STREET, HELENA	NA	NA	102,418	102,418	103,834
Pub. Emply. Retirement	2401 COLONIAL DRIVE, HELENA	NA	NA	3,493,619	3,493,619	3,790,500
	REAL ESTATE TOTAL			7,000,637	7,000,637	7,246,333
	TOTAL EQUITY			**23,525,283**	**1,227,904,915**	**1,692,437,152**
Pub. Emply. Retirement	MONTANA RESIDENTIAL MORTGAGES	NA	NA	105,673,471	105,673,471	106,604,518
Pub. Emply. Retirement	MONTANA COMMERCIAL MORTGAGES	NA	NA	5,494,330	5,494,330	5,474,023
	TOTAL MORTGAGES/LOANS			**111,167,801**	**111,167,801**	**112,078,541**
Pub. Emply. Retirement	SHORT TERM INVESTMENT POOL	NA	NA	75,120,056	75,120,056	75,120,056
PUBLIC EMPLOYEES RETIREMENT TOTAL				**935,597,664**	**2,146,087,982**	**2,684,105,984**
Police Retirement	RETIREMENT FUNDS BOND POOL	NA	NA	39,581,687	40,179,825	43,872,923
	TOTAL FIXED INCOME			**39,581,687**	**40,179,825**	**43,872,923**
Police Retirement	MONTANA PRIVATE EQUITY POOL	NA	NA	68,196	6,335,961	6,975,233
	PRIVATE EQUITY			68,196	6,335,961	6,975,233
Police Retirement	MONTANA INTERNATIONAL POOL	NA	NA	129,898	12,665,000	10,832,775
Police Retirement	MONTANA DOMESTIC EQUITY POOL	NA	NA	560,588	43,468,871	59,429,624
	STOCK TOTAL			690,486	56,133,871	70,262,399
	TOTAL EQUITY			**758,682**	**62,469,832**	**77,237,632**
Police Retirement	SHORT TERM INVESTMENT POOL	NA	NA	1,446,144	1,446,144	1,446,144
POLICE RETIREMENT TOTAL				**41,786,513**	**104,095,801**	**122,556,699**
G. Wardens' Retirement	RETIREMENT FUNDS BOND POOL	NA	NA	11,656,903	11,968,743	12,920,683
	TOTAL FIXED INCOME	**NA**	**NA**	**11,656,903**	**11,968,743**	**12,920,683**
G. Wardens' Retirement	MONTANA PRIVATE EQUITY POOL	NA	NA	20,123	1,881,326	2,058,250
	PRIVATE EQUITY			20,123	1,881,326	2,058,250
	MONTANA INTERNATIONAL POOL	NA	NA	35,930	3,546,000	2,996,381
G. Wardens' Retirement	MONTANA DOMESTIC EQUITY POOL	NA	NA	164,844	12,051,124	17,475,616
	STOCK TOTAL			200,774	15,597,124	20,471,998
	TOTAL EQUITY			**220,898**	**17,478,450**	**22,530,248**
G. Wardens' Retirement	SHORT TERM INVESTMENT POOL	NA	NA	1,690,850	1,690,850	1,690,850
GAME WARDENS RETIREMENT TOTAL				**13,568,650**	**31,138,043**	**37,141,780**
Sheriffs' Retirement	RETIREMENT FUNDS BOND POOL	NA	NA	39,370,764	39,914,914	43,639,134

APPENDIX A - Securities Listings By Portfolios As Of June 30, 2003

Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
	TOTAL FIXED INCOME			**39,370,764**	**39,914,914**	**43,639,134**
Sheriffs' Retirement	MONTANA PRIVATE EQUITY POOL	NA	NA	67,523	6,252,632	6,906,435
	PRIVATE EQUITY			67,523	6,252,632	6,906,435
Sheriffs' Retirement	MONTANA INTERNATIONAL POOL	NA	NA	122,907	12,160,000	10,249,759
Sheriffs' Retirement	MONTANA DOMESTIC EQUITY POOL	NA	NA	557,087	42,359,534	59,058,472
	STOCK TOTAL			679,994	54,519,534	69,308,231
	TOTAL EQUITY			**747,517**	**60,772,166**	**76,214,665**
Sheriffs' Retirement	SHORT TERM INVESTMENT POOL	NA	NA	3,186,403	3,186,403	3,186,403
SHERIFFS RETIREMENT TOTAL				**43,304,685**	**103,873,483**	**123,040,202**
Judges' Retirement	RETIREMENT FUNDS BOND POOL	NA	NA	12,671,966	13,099,116	14,045,793
	TOTAL FIXED INCOME			**12,671,966**	**13,099,116**	**14,045,793**
Judges' Retirement	MONTANA PRIVATE EQUITY POOL	NA	NA	21,929	1,941,059	2,242,927
	PRIVATE EQUITY			21,929	1,941,059	2,242,927
Judges' Retirement	MONTANA INTERNATIONAL POOL	NA	NA	39,504	3,795,000	3,294,445
Judges' Retirement	MONTANA DOMESTIC EQUITY POOL	NA	NA	180,750	12,492,219	19,161,851
	STOCK TOTAL			220,254	16,287,219	22,456,297
	TOTAL EQUITY			**242,183**	**18,228,278**	**24,699,224**
Judges' Retirement	SHORT TERM INVESTMENT POOL	NA	NA	836,726	836,726	836,726
JUDGES RETIREMENT TOTAL				**13,750,875**	**32,164,120**	**39,581,744**
H. Patrol Retirement	RETIREMENT FUNDS BOND POOL	NA	NA	22,714,862	23,233,471	25,177,487
	TOTAL FIXED INCOME			**22,714,862**	**23,233,471**	**25,177,487**
H. Patrol Retirement	MONTANA PRIVATE EQUITY POOL	NA	NA	38,452	3,482,458	3,932,967
	PRIVATE EQUITY			38,452	3,482,458	3,932,967
H. Patrol Retirement	MONTANA INTERNATIONAL POOL	NA	NA	70,548	6,865,000	5,883,354
H. Patrol Retirement	MONTANA DOMESTIC EQUITY POOL	NA	NA	322,522	22,345,527	34,191,470
	STOCK TOTAL			393,070	29,210,527	40,074,824
	TOTAL EQUITY			**431,522**	**32,692,986**	**44,007,791**
H. Patrol Retirement	SHORT TERM INVESTMENT POOL	NA	NA	1,500,947	1,500,947	1,500,947
HIGHWAY PATROL RETIREMENT TOTAL				**24,647,331**	**57,427,404**	**70,686,225**
Teachers' Retirement	RETIREMENT FUNDS BOND POOL	NA	NA	559,320,299	562,952,977	619,958,842
	TOTAL FIXED INCOME			**559,320,299**	**562,952,977**	**619,958,842**
Teachers' Retirement	MONTANA PRIVATE EQUITY POOL	NA	NA	1,149,731	108,040,836	117,596,980
	PRIVATE EQUITY			1,149,731	108,040,836	117,596,980
Teachers' Retirement	MONTANA INTERNATIONAL POOL	NA	NA	2,115,844	206,615,000	176,450,020
Teachers' Retirement	MONTANA DOMESTIC EQUITY POOL	NA	NA	9,551,383	617,785,381	1,012,570,271
	STOCK TOTAL			11,667,227	824,400,381	1,189,020,291
Teachers' Retirement	100 NORTH PARK AVENUE, HELENA	NA	NA	2,915,413	2,915,413	2,786,587
Teachers' Retirement	CALIFORNIA STREET, HELENA	NA	NA	102,418	102,418	103,834
Teachers' Retirement	2401 COLONIAL DRIVE, HELENA	NA	NA	3,493,619	3,493,619	3,790,500
	REAL ESTATE TOTAL			6,511,449	6,511,449	6,680,920
	TOTAL EQUITY			**19,328,407**	**938,952,666**	**1,313,298,191**
Teachers' Retirement	MONTANA RESIDENTIAL MORTGAGES	NA	NA	90,014,317	90,014,317	90,807,398
Teachers' Retirement	MONTANA COMMERCIAL MORTGAGES	NA	NA	4,679,091	4,679,091	4,661,797
	TOTAL MORTGAGES/LOANS			**94,693,408**	**94,693,408**	**95,469,194**
Teachers' Retirement	SHORT TERM INVESTMENT POOL	NA	NA	62,189,780	62,189,780	62,189,780
TEACHERS RETIREMENT TOTAL				**735,531,894**	**1,658,788,831**	**2,090,916,007**
Vol. Firemen's Retirement	RETIREMENT FUNDS BOND POOL	NA	NA	5,380,948	5,568,046	5,964,322
	TOTAL FIXED INCOME			**5,380,948**	**5,568,046**	**5,964,322**
Vol. Firemen's Retirement	MONTANA PRIVATE EQUITY POOL	NA	NA	9,472	829,999	968,788
	PRIVATE EQUITY			9,472	829,999	968,788

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Fund	Security Name	Coupon	Maturity	Par/Shares	Book Value	Fair Value
Vol. Firemen's Retirement	MONTANA INTERNATIONAL POOL	NA	NA	16,533	1,576,042	1,378,791
Vol. Firemen's Retirement	MONTANA DOMESTIC EQUITY POOL	NA	NA	76,728	6,986,437	8,134,128
	STOCK TOTAL			93,261	8,562,480	9,512,919
	TOTAL EQUITY			**102,733**	**9,392,479**	**10,481,707**
Vol. Firemen's Retirement	SHORT TERM INVESTMENT POOL	NA	NA	1,413,860	1,413,860	1,413,860
VOLUNTEER FIREMENS RETIREMENT TOTAL				**6,897,541**	**16,374,385**	**17,859,889**
Firefighters' Retirement	RETIREMENT FUNDS BOND POOL	NA	NA	37,672,597	38,268,597	41,756,860
	TOTAL FIXED INCOME			**37,672,597**	**38,268,597**	**41,756,860**
Firefighters' Retirement	MONTANA PRIVATE EQUITY POOL	NA	NA	63,999	6,036,768	6,545,922
	PRIVATE EQUITY			63,999	6,036,768	6,545,922
Firefighters' Retirement	MONTANA INTERNATIONAL POOL	NA	NA	122,734	12,155,000	10,235,341
Firefighters' Retirement	MONTANA DOMESTIC EQUITY POOL	NA	NA	534,250	42,102,749	56,637,464
	STOCK TOTAL			656,984	54,257,749	66,872,805
	TOTAL EQUITY			**720,983**	**60,294,518**	**73,418,727**
Firefighters' Retirement	SHORT TERM INVESTMENT POOL	NA	NA	1,641,327	1,641,327	1,641,327
FIREFIGHTERS RETIREMENT TOTAL				**40,034,907**	**100,204,442**	**116,816,914**
U of M Endowment	TRUST FUNDS BOND POOL	NA	NA	1,465,400	1,494,218	1,546,898
	TOTAL FIXED INCOME			**1,465,400**	**1,494,218**	**1,546,898**
U of M Endowment	MONTANA DOMESTIC EQUITY POOL	NA	NA	7,063	531,639	748,733
	STOCK TOTAL			7,063	531,639	748,733
	TOTAL EQUITY			**7,063**	**531,639**	**748,733**
U of M Endowment	SHORT TERM INVESTMENT POOL	NA	NA	133,931	133,931	133,931
U OF M ENDOWMENT TOTAL				**1,606,393**	**2,159,788**	**2,429,562**
U of M Designated	TRUST FUNDS BOND POOL	NA	NA	5,696,400	5,644,966	6,013,204
	TOTAL FIXED INCOME			**5,696,400**	**5,644,966**	**6,013,204**
U of M Designated	SHORT TERM INVESTMENT POOL	NA	NA	11,521,034	11,521,034	11,521,034
U OF M DESIGNATED TOTAL				**17,217,434**	**17,166,000**	**17,534,237**
U of M Other	TRUST FUNDS BOND POOL	NA	NA	4,475,600	4,435,185	4,724,509
	TOTAL FIXED INCOME			**4,475,600**	**4,435,185**	**4,724,509**
U of M Other	SHORT TERM INVESTMENT POOL	NA	NA	8,244,747	8,244,747	8,244,747
U OF M OTHER TOTAL				**12,720,347**	**12,679,932**	**12,969,256**
MT Tech UM Agency Fund	TRUST FUNDS BOND POOL	NA	NA	425,100	438,381	448,742
	TOTAL FIXED INCOME			**425,100**	**438,381**	**448,742**
MT Tech UM Agency Fund	SHORT TERM INVESTMENT POOL	NA	NA	1,082,392	1,082,392	1,082,392
MT TECH UM AGENCY FUND TOTAL				**1,507,492**	**1,520,772**	**1,531,133**

Total Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		264,527,262		11.2	
2003	8,521,337,023	(24,684,663)	394,899,778	(0.3)	4.63
2002	8,546,021,686	147,775,828	417,327,390	1.8	4.93
2001	8,398,245,858	658,923,289	570,461,812	8.5	7.07
2000	7,739,322,569	693,439,982	447,627,517	9.8	6.06
1999	7,045,882,586	463,293,558	415,348,813	7.0	6.10
1998	6,582,589,029	686,850,999	403,985,459	11.6	6.47
1997	5,895,738,030	267,508,710	384,866,212	4.8	6.68
1996	5,628,229,319	605,461,292	369,439,052	12.1	6.94
1995	5,022,768,027	250,748,706	311,952,313	5.3	6.37
1994	4,772,019,321	480,559,669	302,093,612	11.2	6.67
1993	4,291,459,652	492,251,338	325,722,769	13.0	8.05
1992	3,799,208,314	355,765,056	307,462,334	10.3	8.49
1991	3,443,443,258	246,482,405	296,946,028	7.7	8.94
1990	3,196,960,853	288,091,626	295,081,958	9.9	9.67
1989	2,908,869,227	280,122,753	269,244,243	10.7	9.72
1988	2,628,746,474	235,709,041	241,658,140	9.8	9.62
1987	2,393,037,433	233,749,895	239,583,020	10.8	10.53
1986	2,159,287,538	170,672,805	241,937,271	8.6	11.67
1985	1,988,614,733	206,311,756	213,464,258	11.6	11.32
1984	1,782,302,977	235,104,098	186,457,609	15.2	11.20
1983	1,547,198,879	178,461,561	164,390,784	13.0	11.28
1982	1,368,737,318	212,737,071	154,789,542	18.4	12.26
1981	1,156,000,247	126,611,696	114,119,374	12.3	10.44
1980	1,029,388,551	138,857,798	86,842,796	15.6	9.05
1979	890,530,753	94,217,581	65,520,161	11.8	7.77
1978	796,313,172	88,666,884	54,276,875	12.5	7.22
1977	707,646,288	80,721,049	47,313,627	12.9	7.09
1976	626,925,239	89,088,506	41,459,770	16.6	7.12
1975	537,836,733	70,390,182	37,118,312	15.1	7.38
1974	467,446,551	86,059,140	29,439,170	22.6	6.94
1973	381,387,411	60,395,524	20,367,231	18.8	5.80
1972	320,991,887		16,132,196		5.46

PERS Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		66,646,216		11.2	
2003	2,146,087,982	71,237,880	114,127,866	3.4	5.41
2002	2,074,850,102	106,785,197	107,865,330	5.4	5.34
2001	1,968,064,905	170,773,454	170,918,237	9.5	9.08
2000	1,797,291,451	112,876,555	125,474,099	6.7	7.21
1999	1,684,414,896	105,784,616	112,867,195	6.7	6.92
1998	1,578,630,280	106,522,015	111,445,739	7.2	7.31
1997	1,472,108,266	111,355,981	110,533,498	8.2	7.80
1996	1,360,752,285	100,819,152	102,873,163	8.0	7.85
1995	1,259,933,133	83,895,411	83,425,354	7.1	6.85
1994	1,176,037,722	88,830,571	87,660,863	8.2	7.75
1993	1,087,207,151	103,262,368	95,914,874	10.5	9.26
1992	983,944,783	88,442,271	85,428,480	9.9	9.09
1991	895,502,511	86,322,266	79,719,985	10.7	9.35
1990	809,180,245	73,974,823	77,847,393	10.1	10.08
1989	735,205,422	71,140,882	72,003,023	10.7	10.29
1988	664,064,540	61,353,155	64,036,322	10.2	10.11
1987	602,711,385	73,745,575	63,439,745	13.9	11.21
1986	528,965,810	67,608,025	58,693,664	14.7	11.85
1985	461,357,785	57,520,058	47,403,616	14.2	10.96
1984	403,837,727	50,640,947	40,615,456	14.3	10.73
1983	353,196,780	48,909,250	34,958,940	16.1	10.63
1982	304,287,530	33,579,211	28,815,109	12.4	10.02
1981	270,708,319	26,408,693	23,489,723	10.8	9.12
1980	244,299,626	29,277,738	19,321,321	13.6	8.41
1979	215,021,888	28,633,695	16,357,252	15.4	8.15
1978	186,388,193	25,532,853	13,520,389	15.9	7.79
1977	160,855,340	21,732,482	11,361,593	15.6	7.57
1976	139,122,858	19,833,635	9,641,522	16.6	7.46
1975	119,289,223	15,815,377	7,593,641	15.3	6.82
1974	103,473,846	12,710,258	6,351,974	14.0	6.54
1973	90,763,588	10,708,308	5,471,314	13.4	6.41
1972	80,055,280		4,566,690		6.09

TRS Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		51,153,357		10.6	
2003	1,658,788,831	41,959,040	95,580,408	2.6	5.84
2002	1,616,829,791	63,244,376	93,575,646	4.1	5.90
2001	1,553,585,415	116,367,847	152,363,493	8.1	10.19
2000	1,437,217,568	82,198,204	102,257,693	6.1	7.32
1999	1,355,019,364	67,803,208	92,826,763	5.3	7.03
1998	1,287,216,156	75,053,541	91,673,149	6.2	7.34
1997	1,212,162,615	87,081,006	92,197,958	7.7	7.89
1996	1,125,081,609	78,827,109	85,368,503	7.5	7.86
1995	1,046,254,500	72,939,312	73,018,070	7.5	7.23
1994	973,315,188	71,749,470	72,973,821	8.0	7.78
1993	901,565,718	89,220,933	78,687,668	11.0	9.18
1992	812,344,785	75,529,049	70,469,210	10.3	9.10
1991	736,815,736	74,733,955	65,948,441	11.3	9.43
1990	662,081,781	62,484,325	63,628,096	10.4	10.09
1989	599,597,456	60,465,431	58,607,895	11.2	10.29
1988	539,132,025	54,915,708	51,714,157	11.3	10.11
1987	484,216,317	69,184,764	49,117,437	16.7	10.92
1986	415,031,553	55,364,281	45,425,369	15.4	11.73
1985	359,667,272	51,074,593	36,036,654	16.6	10.79
1984	308,592,679	43,299,873	30,222,754	16.3	10.53
1983	265,292,806	32,138,199	25,772,023	13.8	10.34
1982	233,154,607	20,177,836	21,717,577	9.5	9.74
1981	212,976,771	20,686,541	18,108,545	10.8	8.94
1980	192,290,230	20,009,545	14,936,461	11.6	8.19
1979	172,280,685	19,350,005	13,272,323	12.7	8.16
1978	152,930,680	17,406,858	11,098,439	12.8	7.70
1977	135,523,822	16,820,305	9,405,270	14.2	7.40
1976	118,703,517	15,506,452	8,076,379	15.0	7.28
1975	103,197,065	10,132,831	6,702,284	10.9	6.83
1974	93,064,234	8,920,253	5,963,267	10.6	6.73
1973	84,143,981	11,109,208	5,075,899	15.2	6.46
1972	73,034,773		4,402,802		6.39

Coal Tax Trust Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		26,870,047		20.6	
2003	678,013,550	14,230,928	44,313,873	2.1	6.61
2002	663,782,622	13,720,298	45,049,799	2.1	6.86
2001	650,062,324	13,310,993	44,342,611	2.1	6.89
2000	636,751,331	22,134,147	44,308,988	3.6	7.08
1999	614,617,184	11,643,713	45,531,774	1.9	7.48
1998	602,973,471	16,194,141	44,918,922	2.8	7.55
1997	586,779,330	23,795,447	44,918,922	4.2	7.81
1996	562,983,883	15,973,100	44,376,465	2.9	8.00
1995	547,010,783	15,576,784	38,341,049	2.9	7.11
1994	531,433,999	19,416,428	43,012,532	3.8	8.24
1993	512,017,571	19,027,837	51,246,095	3.9	10.20
1992	492,989,734	18,731,378	47,594,422	3.9	9.84
1991	474,258,356	27,246,023	46,327,632	6.1	10.06
1990	447,012,333	35,228,274	45,785,254	8.6	10.66
1989	411,784,059	30,880,710	41,508,302	8.1	10.47
1988	380,903,349	41,062,015	35,294,692	12.1	9.79
1987	339,841,334	38,367,530	37,468,144	12.7	11.68
1986	301,473,804	49,052,410	38,475,175	19.4	13.89
1985	252,421,394	49,765,895	29,247,622	24.6	12.85
1984	202,655,499	44,076,324	24,105,342	27.8	13.35
1983	158,579,175	41,433,379	19,626,992	35.4	14.24
1982	117,145,796	42,617,964	13,233,786	57.2	13.81
1981	74,527,832	34,579,927	6,492,082	86.6	11.34
1980	39,947,905	23,040,483	2,619,380	136.3	9.21
1979	16,907,422	10,645,052	950,026	170.0	8.20
1978	6,262,370		177,366		NA

Trust and Legacy Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		11,222,762		6.3	
2003	410,553,970	(4,348,424)	29,215,115	(1.0)	7.08
2002	414,902,395	48,679,980	29,772,669	13.3	7.62
2001	366,222,415	11,759,523	26,219,151	3.3	7.28
2000	354,462,892	9,744,112	25,470,629	2.8	7.29
1999	344,718,781	8,419,172	26,263,226	2.5	7.71
1998	336,299,609	11,091,289	25,927,613	3.4	7.84
1997	325,208,320	9,713,224	24,473,449	3.1	7.64
1996	315,495,096	20,199,818	25,828,860	6.8	8.46
1995	295,295,278	10,150,565	23,149,117	3.6	7.98
1994	285,144,713	10,913,173	25,970,470	4.0	9.29
1993	274,231,540	7,937,366	30,069,820	3.0	11.13
1992	266,294,174	14,462,111	27,169,293	5.7	10.49
1991	251,832,063	17,495,864	25,950,710	7.5	10.68
1990	234,336,199	11,730,261	24,874,021	5.3	10.89
1989	222,605,938	14,200,044	23,942,716	6.8	11.11
1988	208,405,894	12,245,758	21,509,513	6.2	10.63
1987	196,160,136	8,677,947	23,295,649	4.6	12.14
1986	187,482,189	13,983,199	23,755,608	8.1	13.16
1985	173,498,990	12,133,321	19,358,472	7.5	11.56
1984	161,365,669	11,781,056	17,541,642	7.9	11.28
1983	149,584,613	16,377,726	16,136,589	12.3	11.41
1982	133,206,887	9,765,918	13,334,761	7.9	10.39
1981	123,440,969	14,491,921	10,771,441	13.3	9.27
1980	108,949,048	11,966,982	8,173,411	12.3	7.94
1979	96,982,066	9,691,121	6,813,640	11.1	7.40
1978	87,290,945	9,221,849	5,902,955	11.8	7.14
1977	78,069,096	6,766,268	5,244,983	9.5	7.02
1976	71,302,828	4,295,066	4,543,390	6.4	6.57
1975	67,007,762	2,743,989	3,712,287	4.3	5.66
1974	64,263,773	(658,629)	3,495,629	(1.0)	5.41
1973	64,922,402	2,274,069	3,373,031	3.6	5.29
1972	62,648,333		2,666,280		4.31

Resource Indemnity Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		3,410,442		16.8	
2003	100,000,965	(1,506,659)	7,174,343	(1.5)	7.12
2002	101,507,624	1,731,043	7,320,563	1.7	7.27
2001	99,776,581	333,491	7,305,992	0.3	7.33
2000	99,443,090	3,263,413	7,200,280	3.4	7.36
1999	96,179,677	761,624	7,528,795	0.8	7.86
1998	95,418,053	1,077,039	7,555,620	1.1	7.96
1997	94,341,015	1,517,077	7,318,083	1.6	7.82
1996	92,823,938	2,180,282	7,959,842	2.4	8.68
1995	90,643,656	747,988	6,380,294	0.8	7.07
1994	89,895,668	2,529,018	8,241,711	2.9	9.30
1993	87,366,650	4,737,267	8,715,126	5.7	10.25
1992	82,629,383	4,721,885	8,245,913	6.1	10.27
1991	77,907,497	4,467,644	8,097,553	6.1	10.70
1990	73,439,854	6,687,357	7,473,283	10.0	10.66
1989	66,752,497	4,507,782	6,941,486	7.2	10.76
1988	62,244,715	5,170,017	6,066,172	9.1	10.17
1987	57,074,698	4,015,025	7,205,821	7.6	13.09
1986	53,059,673	6,090,898	6,548,573	13.0	13.09
1985	46,968,775	4,693,048	5,509,892	11.1	12.35
1984	42,275,727	6,626,874	4,509,923	18.6	11.58
1983	35,648,853	7,692,479	4,021,028	27.5	12.64
1982	27,956,374	7,225,741	2,544,162	34.9	10.45
1981	20,730,633	4,537,059	1,767,418	28.0	9.57
1980	16,193,574	3,631,669	1,243,397	28.9	8.65
1979	12,561,905	1,924,348	956,045	18.1	8.24
1978	10,637,557	2,422,688	754,068	29.5	8.00
1977	8,214,869	2,672,848	532,922	48.2	7.75
1976	5,542,021	2,262,360	321,782	69.0	7.30
1975	3,279,661	2,181,518	96,126	198.7	4.39
1974	1,098,143		3,485		NA

Parks/Cultural Trust Funds Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		745,507		17.2	
2003	20,406,842	(60,541)	1,429,181	(0.3)	6.99
2002	20,467,384	1,094,498	1,411,317	5.6	7.08
2001	19,372,886	897,953	1,369,148	4.9	7.24
2000	18,474,933	277,660	1,328,128	1.5	7.24
1999	18,197,273	143,496	1,381,258	0.8	7.62
1998	18,053,777	786,529	1,373,997	4.6	7.78
1997	17,267,248	(3,328,466)	1,505,353	(16.2)	7.95
1996	20,595,714	585,498	1,620,819	2.9	7.98
1995	20,010,216	(256,515)	1,479,603	(1.3)	7.35
1994	20,266,731	155,683	1,527,827	0.8	7.57
1993	20,111,048	1,211,787	1,851,220	6.4	9.49
1992	18,899,261	71,481	2,072,292	0.4	10.99
1991	18,827,780	867,833	1,895,380	4.8	10.30
1990	17,959,947	1,334,564	1,878,213	8.0	10.86
1989	16,625,383	(925)	1,812,862	(0.0)	10.90
1988	16,626,308	299,147	1,713,180	1.8	10.40
1987	16,327,161	142,998	1,836,570	0.9	11.30
1986	16,184,163	2,318,634	2,482,341	16.7	16.52
1985	13,865,529	2,357,908	1,628,262	20.5	12.83
1984	11,507,621	2,026,260	1,138,911	21.4	10.85
1983	9,481,361	2,001,547	941,225	26.8	11.10
1982	7,479,814	2,154,736	857,069	40.5	13.39
1981	5,325,078	1,760,617	518,146	49.4	11.66
1980	3,564,461	2,089,194	276,134	141.6	10.96
1979	1,475,267	301,781	107,070	25.7	8.08
1978	1,173,486	415,871	67,614	54.9	7.00
1977	757,615	479,465	33,227	172.4	6.42
1976	278,150		5,004		NA

Treasurer's Fund Historical Book Balances, Income, and Income Return

Year	Year-End $ Balances	Annual $ Increase	Annual $ Income	Annual % Incr.	Income %Return
Average Annual Balance Increase		9,300,998		5.9	
2003	347,502,695	21,932,553	6,366,439	6.7	1.89
2002	325,570,142	(92,198,060)	12,440,828	(22.1)	4.54
2001	417,768,202	(21,626,740)	20,771,980	(4.9)	6.21
2000	439,394,942	44,935,239	15,526,493	11.4	5.11
1999	394,459,703	58,729,353	17,041,259	17.5	5.49
1998	335,730,350	46,229,002	17,276,565	16.0	5.82
1997	289,501,348	(116,879,353)	14,499,914	(28.8)	5.00
1996	406,380,701	130,573,055	15,869,477	47.3	5.04
1995	275,807,646	(55,486,611)	16,161,064	(16.7)	5.29
1994	331,294,257	75,980,006	11,486,172	29.8	3.77
1993	255,314,251	49,497,122	12,916,816	24.0	4.50
1992	205,817,129	(87,133,254)	16,504,585	(29.7)	7.02
1991	292,950,383	(62,810,336)	22,536,484	(17.7)	7.91
1990	355,760,719	62,711,613	26,351,179	21.4	8.37
1989	293,049,106	75,093,422	21,294,365	34.5	7.99
1988	217,955,684	497,584	15,406,342	0.2	6.79
1987	217,458,100	16,766,997	12,759,394	8.4	5.49
1986	200,691,103	(54,516,631)	13,215,592	(21.4)	6.42
1985	255,207,734	24,465,129	24,920,025	10.6	9.85
1984	230,742,605	1,456,166	23,048,654	0.6	10.45
1983	229,286,439	(56,554,692)	28,477,046	(19.8)	10.29
1982	285,841,131	38,330,194	42,501,636	15.5	13.57
1981	247,510,937	32,810,117	29,020,120	15.3	12.05
1980	214,700,820	12,827,050	21,341,613	6.4	10.51
1979	201,873,770	16,449,453	12,982,433	8.9	8.41
1978	185,424,317	13,016,569	10,827,779	7.5	6.88
1977	172,407,748	11,796,744	9,789,327	7.3	6.28
1976	160,611,004	5,757,912	10,458,037	3.7	6.74
1975	154,853,092	21,984,238	12,135,349	16.5	8.59
1974	132,868,854	50,478,772	8,340,038	61.3	8.66
1973	82,390,082	23,218,332	3,385,647	39.2	5.28
1972	59,171,750		1,507,755		4.63

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Retirement Funds Bond Pool, as of June 30, 2003 and 2002, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Retirement Funds Bond Pool, as of June 30, 2003 and 2002, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

November 4, 2003

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STATE OF MONTANA BOARD OF INVESTMENTS
RETIREMENT FUNDS BOND POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2003 AND 2002

		2003		2002
Assets				
Cash	$	9,519,570	$	0
Security lending cash collateral (Notes 3 and 4)		82,134,484		171,445,667
Interest receivable		23,193,652		29,425,818
Investments managed at fair value (amortized cost of $1,424,315,436 in 2003 and $1,654,643,910 in 2002)(Notes 2 and 4)		1,588,980,615		1,706,799,803
Total assets	$	1,703,828,321	$	1,907,671,288
Liabilities				
Income due participants (Note 2)		9,800,159		10,898,107
Security lending obligations (Notes 3 and 4)		82,134,484		171,445,667
Security lending expense payable		87,402		230,520
Total liabilities		92,022,045		182,574,294
Net asset value	$	1,611,806,276	$	1,725,096,994
Units Outstanding (Note 2)		14,541,546		16,657,667
Unit Value (Note 2)	$	110.84	$	103.56

STATEMENT OF CHANGES IN NET ASSET VALUE FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Net asset value, beginning of year	$	1,725,096,994	$	1,870,763,061
Value of units purchased by participants		0		300,000
Value of units sold by participants		(213,482,974)		(169,196,158)
Changes in fair value of investments managed		100,192,256		23,230,091
Net asset value, end of year	$	1,611,806,276	$	1,725,096,994

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Investment income (Note 2)	$	132,188,754	$	128,622,973
Security lending income		1,825,473		4,973,512
Security lending expense		(1,653,821)		(4,454,025)
Administrative expenses		(262,848)		(297,444)
Income due participants, beginning of year		10,898,107		12,818,352
Income available for distribution		142,995,665		141,663,368
Distribution		133,195,506		130,765,261
Income due participants, end of year (Note 2)	$	9,800,159	$	10,898,107

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
RETIREMENT FUNDS BOND POOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Retirement Funds Bond Pool (RFBP) was created by the Board to allow qualifying funds, per section 17-6-201, MCA, to participate in a diversified pool. The RFBP was created on April 1, 1995, by the transfer of all fixed income and variable-rate securities owned by the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

RFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The RFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, government, Yankee securities and cash investments. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Government securities include direct and indirect obligations of the U.S. Treasury and state and local government bonds. Yankee bonds are U.S. dollar denominated bonds issued by foreign corporations and governments and U.S. companies issuing debt in foreign markets.

The RFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Some RFBP REMICs are interest-only strips (IOs). Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. IOs receive cash flow from the interest payment component on underlying mortgage loans. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as government mortgage-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Categories and Note 6 for the Year End Portfolio.)

RFBP fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The variable-rate securities float with LIBOR (London Interbank Offered Rate) or the weighted average of the net mortgage interest rates for the mortgage loan group. The three variable-rate securities, with a total amortized cost of $450,000 and $700,000, respectively, as of June 30, 2003 and 2002, are identified and reported as government mortgage-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Categories and Note 6 for the Year End Portfolio.)

The RFBP, as an internal investment pool, invests its excess cash in the Board's Short Term Investment Pool, STIP, an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

Investments are presented in the Statement of Net Asset Value at fair value. Fair values are determined primarily by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank. Amortized cost, parenthetically disclosed, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Participant Units

The Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds transferred all fixed income and variable-rate securities, at amortized cost, into the RFBP at the start-up date and were issued units according to the market value of each participant's portfolio. The initial unit value as of April 1, 1995, was $100.00. Unit values thereafter are calculated weekly and at month end, based on portfolio pricing, to allow for participant transactions to occur as determined by the investment staff.

The June 30, 2003 unit value of $110.84 increased from a June 30, 2002 unit value of $103.56. Interest rates declined during the fiscal year by over one percent, which has the effect of increasing bond prices and the pool unit value. A one percent (1%) change in interest rates is expected to have a five to seven percent (5%-7%) inverse change in the unit value. RFBP investments are considered long-term in nature.

The Value of Units Sold by Participants of $213.5 million for fiscal year 2003, as compared to $169.2 million for fiscal year 2002 reflects the pension funds' portfolio rebalancing. RFBP units were sold to adjust the pension funds' portfolio towards the stated equity/fixed income asset allocation.

Broker Receivable/Payable

RFBP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the RFBP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Other

Accumulated income, recorded as Income Due Participants, is distributed monthly on the first calendar day of each month. Realized portfolio gains/losses are distributed at least annually to the participants.

Investment income reported in the Statement of Investment Income and Distribution includes interest accruals, realized gains/losses, amortization/accretion and miscellaneous income.

Administrative expenses incurred by the Board are charged daily to RFBP based on the Board's expenses applicable to RFBP. These expenses include costs for the custodial bank contract.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, State Street lent, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2003 and 2002 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2003 and 2002. Moreover, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street.

During fiscal years 2003 and 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2003 and June 30, 2002, the Board had no credit risk exposure to borrowers.

As of June 30, 2003, the carrying and fair values of the underlying securities on loan for the RFBP were $63,891,788 and $79,703,155 respectively. Cash collateral provided for the securities on loan totaled $82,134,484.

As of June 30, 2002, the carrying and fair values of the underlying securities on loan for the RFBP were $149,118,626 and $165,121,529 respectively. Cash collateral provided for the securities on loan totaled $171,445,667.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below to give an indication of the level of risk assumed at June 30, 2003 and June 30, 2002. Category 1 includes investments that are insured or registered, or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 10,000,000	$ 0	$ 0	$ 10,000,000	$ 10,000,000
Corporate Other	839,198,080	0	9,277,647	848,475,727	930,781,145
US Govt Mortgage-Backed	74,506,361	0	0	74,506,361	77,402,316
US Govt Direct/Indirect	326,000,808	0	53,620,070	379,620,878	449,442,686
Yankee Bonds	81,281,490	0	994,070	82,275,560	91,917,558
STIP	29,436,910	0	0	29,436,910	29,436,910
Total Investments	$ 1,360,423,649	$ 0	$ 63,891,787	$ 1,424,315,436	$ 1,588,980,615
Securities Lending Collateral Investment Pool			$ 82,134,484	$ 82,134,484	$ 82,134,484

***At June 30, 2003, these underlying securities with fair values of $79,703,155 were loaned for cash collateral under a security lending agreement with the state's agent.**

Risk as of June 30, 2002

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 1,357,024	$ 0	$ 0	$ 1,357,024	$ 1,412,007
Corporate Other	1,094,406,725	0	8,963,955	1,103,370,680	1,109,175,400
US Govt Mortgage-Backed	60,869,572	0	0	60,869,572	63,326,005
US Govt Direct/Indirect	251,439,508	0	140,149,698	391,589,206	433,207,799
Yankee Bonds	88,899,073	0	4,973	88,904,046	91,125,210
State/Local Government	1,130,000	0	0	1,130,000	1,130,000
STIP	7,423,382	0	0	7,423,382	7,423,382
Total Investments	$ 1,505,525,284	$ 0	$ 149,118,626	$ 1,654,643,910	$ 1,706,799,803
Securities Lending Collateral Investment Pool			$ 171,445,667	$ 171,445,667	$ 171,445,667

***At June 30, 2002, these underlying securities with fair values of $165,121,529 were loaned for cash collateral under a security lending agreement with the state's agent.**

With the exception of the US government securities, the above instruments have credit risk as measured by major credit rating services. Credit risk is defined as the risk that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires RFBP investments, at the time of purchase, to be rated investment grade as defined by Moody's or Standard & Poor's (S&P) rating services. The US government securities are guaranteed directly or indirectly by the US government.

Market risk for the above securities is caused by changes in the price or principal value of the security due to changes in interest rates and market liquidity.

As reported in the government mortgage-backed category, the RFBP portfolio holds REMICs totaling $1,703,480 and $2,503,357 in amortized cost, respectively, as of June 30, 2003 and June 30, 2002. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages. The IOs are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities.

The IO REMIC securities purchased in August and September 1992 are being reduced periodically towards zero according to the expected average life of the underlying mortgages. The IO securities amortized cost is $450,000 as of June 30, 2003 and $700,000 as of June 30, 2002.

Corporate asset-backed securities represent debt securities collateralized by a pool of assets. The RFBP corporate asset-backed security is secured by lease payments and real estate. Credit risk for corporate asset backed securities is generally less than other coporate securities because assets are held by a third party.

As of June 30, 2003 and June 30, 2002, Enron Corp., and Burlington Industries, Inc. presented legal and higher credit risks to the Board.

The RFBP holds a $7 million par 6.40% Enron bond maturing July 15, 2006 and a $7 million par 6.95% Enron bond maturing July 15, 2028. The combined book value of these securities was $13,582,030 as of November 30, 2001. On December 12, 2001, the Enron Corp. filed for Chapter 11 bankruptcy protection. Accordingly, the November 2001 book value for the two issues was reduced to $5.6 million as of June 30, 2002. In October 2002, the book value was reduced to $2.8 million for both issues. In July 2003, both issues were sold, on the market, for a total of $2.36 million.

The Board owns a Burlington Industries, Inc., $6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $5,609,640 to $2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. This sale is expected to close in November 2003. Under the company's recovery plan, the Board will receive cash for its unsecured claim.

As of June 30, 2002, Rite Aid and WorldCom Inc. presented a higher credit risk to the Board.

The RFBP owned a Rite Aid $7,000,000 par, 7.13% bond maturing January 15, 2007. In May 2000, the Board was subordinated to a secured bank line of credit on this issue and the bond ratings were downgraded by the Moody's and Standard & Poor's bond ratings agencies. Based on this subordination and ratings downgrade, the book value was reduced to $5,600,000 as of June 30, 2000. During fiscal year 2001, the book value was further reduced to $5,220,172. Due to an improving credit trend, amortization was resumed in June 2001. The book value of this security at June 30, 2002 was $5,541,139. As of June 30, 2002, Rite Aid did not represent a credit risk. In December 2002, this bond was sold, on the market, for $5,057,500 principal plus interest of $206,427.

The RFBP portfolio included a $6,000,000 par, 6.95% WorldCom Inc. bond maturing August 15, 2028. The book value of this bond, originally purchased at a discount, was $5,477,400 on June 30, 2002. On July 21, 2002, WorldCom Inc. filed for Chapter 11 bankruptcy protection. As of July 31, 2002, the reduced book value was $2,400,000. On November 7, 2002, the Attorney General for the State of Montana filed a lawsuit against certain WorldCom executives, directors and financial institutions associated with WorldCom such as Arthur Andersen and CitiGroup. The lawsuit, filed in Lewis and Clark County, Montana, alleges that the defendants filed "false and misleading registration statements" relating to the purchase of the bonds by the Montana Board of Investments. In December 2002, this bond was sold, on the market, for $1.5 million.

5. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $5 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $538,632 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of $113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the Board received $5,683,075 in principal and interest plus $150,000 as a consent fee.

6. YEAR END PORTFOLIO

The June 30, 2003 RFBP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
AERO 1 HQ FIN TRUST	4.640	07/07/10	10,000,000	10,000,000	10,000,000	0.63%
Corporate Asset-Backed	**1 Issue(s)**		**10,000,000**	**10,000,000**	**10,000,000**	**0.63%**
AMERICA WEST AIRLINES EQUIPMENT TRUST	7.930	01/02/19	5,320,432	5,320,432	5,641,998	0.35%
AMERICAN AIRLINES 1991 EQUIPMENT TRUST	10.180	01/02/13	5,000,000	4,998,054	2,625,000	0.16%
AMERICAN AIRLINE EQUIPMENT TRUST	6.977	05/23/21	9,757,681	9,734,224	8,001,299	0.50%
AMERICAN TRANS AIR EQUIPMENT TRUST	8.039	07/15/17	11,660,741	11,660,741	12,379,720	0.77%
ARCHER DANIELS MIDLAND CO	10.250	01/15/06	3,500,000	3,497,230	4,206,077	0.26%
ASHLAND OIL CO	8.800	11/15/12	7,500,000	7,669,828	9,442,650	0.59%
ATCHISON TOPEKA + SANTA FE RY	6.550	01/06/13	7,475,000	7,475,000	8,617,844	0.54%
BANK ONE TEXAS	6.250	02/15/08	4,000,000	3,848,798	4,589,367	0.29%
BANKBOSTON NA	6.375	03/25/08	4,000,000	3,857,894	4,557,422	0.29%
BORDEN INC	9.250	06/15/19	5,500,000	5,339,560	3,575,000	0.22%
BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	5,000,000	5,009,073	5,618,420	0.35%
BURLINGTON INDUSTRIES INC	7.250	09/15/05	6,000,000	1,200,000	2,520,000	0.16%
BURLINGTON NORTHN RR CO	7.970	01/01/15	3,901,688	3,901,688	4,820,659	0.30%
BURLINGTON NORTHN RR CO	6.940	01/02/14	3,748,199	3,748,199	4,493,457	0.28%
CNA FINL CORP	6.250	11/15/03	5,000,000	4,990,434	5,054,904	0.32%
CSX CORP	7.450	05/01/07	3,000,000	3,080,886	3,510,204	0.22%
CSX CORP	7.900	05/01/17	5,000,000	4,997,993	6,655,543	0.42%
CHAMPION INTERNATIONAL CORP	7.625	09/01/23	10,000,000	9,824,100	10,440,924	0.65%
CHAMPION INTERNATIONAL CORP	7.150	12/15/27	7,000,000	6,863,686	7,871,028	0.49%
CHICAGO + NORTH WESTERN RY	8.910	01/01/15	8,411,884	8,411,884	11,224,918	0.70%
CITIGROUP INC	7.875	05/15/25	6,000,000	6,115,269	7,851,025	0.49%
CITIGROUP INC	6.200	03/15/09	5,000,000	4,801,184	5,760,142	0.36%
CITICORP CAPITAL II	8.015	02/15/27	4,000,000	3,969,090	4,706,985	0.29%
CLEVELAND ELEC ILLUM CO	9.000	07/01/23	3,000,000	2,985,373	3,139,039	0.20%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.545	02/02/19	6,968,407	6,968,407	6,585,144	0.41%
CORPORATE PROPERTY INVS	7.750	08/15/04	5,000,000	5,016,454	5,292,636	0.33%
CORPORATE PROPERTY INVS	7.875	03/15/16	12,000,000	12,056,487	14,685,766	0.92%
DAYTON HUDSON CORP	7.650	08/01/23	1,500,000	1,504,596	1,564,902	0.10%
DEER PARK REFINING L P	6.470	12/15/08	5,747,700	5,685,976	6,494,115	0.41%
DELTA AIR LINES INC EQUIPMENT TRUST	10.140	08/14/12	2,000,000	2,000,000	1,550,000	0.10%
DELTA AIR LINES INC EQUIPMENT TRUST	10.140	08/14/12	4,000,000	3,986,170	3,100,000	0.19%
DELTA AIR LINES INC EQUIPMENT TRUST	10.000	06/05/11	1,971,000	1,956,080	1,527,525	0.10%
DELTA AIR LINES INC EQUIPMENT TRUST	10.000	06/05/13	3,000,000	3,000,000	1,200,000	0.08%
DILLARD DEPT STORES INC	7.750	07/15/26	2,000,000	1,982,546	1,795,000	0.11%
EL PASO NATURAL GAS CO	8.625	01/15/22	5,000,000	5,215,728	5,375,000	0.34%
ENRON CORP	6.400	07/15/06	7,000,000	1,400,000	1,347,500	0.08%
ENRON CORP	6.950	07/15/28	7,000,000	1,400,000	1,338,750	0.08%
ENSERCH CORP	7.125	06/15/05	5,000,000	5,026,211	5,368,758	0.34%
FMC CORP	6.375	09/01/03	8,000,000	7,998,799	8,020,000	0.50%
FIRST CHICAGO CORP	6.375	01/30/09	4,000,000	3,784,677	4,607,997	0.29%
FIRST INTERSTATE BANC SYSTEM MONTANA	7.500	10/01/06	11,620,000	11,620,000	11,620,000	0.73%
FIRST SECURITY CORP	6.875	11/15/06	6,000,000	5,982,752	6,876,818	0.43%
FIRST UNION CORP	7.050	08/01/05	5,000,000	5,018,666	5,521,324	0.35%
FIRST UNION BANK N C CHARLOTTE	5.800	12/01/08	6,000,000	5,635,902	6,767,097	0.42%
FLORIDA GAS TRANSMISSION CO	9.190	11/01/24	10,000,000	9,943,173	11,538,418	0.72%
FORD MOTOR CREDIT CO	6.750	05/15/05	5,000,000	4,992,793	5,272,852	0.33%
FORD MOTOR CREDIT CO	7.375	10/28/09	8,000,000	8,008,264	8,406,342	0.53%
GTE CORP	7.900	02/01/27	14,000,000	14,000,000	16,019,620	1.00%
GTE SOUTH INC	7.500	03/15/26	9,000,000	8,881,361	10,143,618	0.63%
GENERAL AMERICAN TRANSN EQUIPMENT TR	8.420	01/01/15	8,074,469	8,074,469	7,678,673	0.48%
GENERAL ELECTRIC CAPITAL CORP	8.125	05/15/12	5,000,000	5,254,175	6,439,407	0.40%
GENERAL MOTORS ACCEPTANCE CORP	0.000	12/01/12	25,000,000	13,761,459	13,048,025	0.82%
GENERAL MOTORS ACCEPTANCE CORP	6.125	08/28/07	5,000,000	5,016,147	5,210,905	0.33%
GENERAL RE CORP	0.000	07/30/37	375,723,766	22,931,763	23,264,816	1.46%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
GEORGIA PACIFIC CORP	9.125	07/01/22	3,000,000	2,947,019	2,846,250	0.18%
GEORGIA PACIFIC CORP	8.250	03/01/23	5,000,000	5,051,390	4,425,000	0.28%
GEORGIA PACIFIC CORP	8.625	04/30/25	3,000,000	3,151,293	2,730,000	0.17%
GEORGIA PACIFIC CORP	7.750	11/15/29	3,000,000	2,465,841	2,670,000	0.17%
GULF STATES UTILITIES CO	8.700	04/01/24	5,000,000	5,000,000	5,195,541	0.33%
ILLINOIS BELL TELEPHONE CO	6.625	02/01/25	2,000,000	1,796,058	2,078,544	0.13%
INTERNATIONAL PAPER CO	6.875	11/01/23	3,000,000	2,963,714	3,293,545	0.21%
JPM CAPITAL TRUST I	7.540	01/15/27	6,000,000	5,676,061	6,703,727	0.42%
KCT INTERMODAL TRANSPORTATION CORP	6.884	08/01/18	3,753,867	3,753,867	4,115,616	0.26%
K N ENERGY INC	6.650	03/01/05	3,000,000	3,018,967	3,211,962	0.20%
K N ENERGY INC	7.250	03/01/28	3,000,000	2,957,342	3,498,393	0.22%
KELLWOOD CO	7.625	10/15/17	12,000,000	11,810,194	11,580,000	0.72%
KERR MCGEE CORP	7.125	10/15/27	7,000,000	7,089,231	7,893,911	0.49%
KEYCORP	7.500	06/15/06	5,000,000	4,997,106	5,713,098	0.36%
LEHMAN BROTHERS HLDINGS INC	0.000	07/28/28	80,000,000	11,765,452	12,640,000	0.79%
MARSH + MCLENNAN COS INC	7.125	06/15/09	7,000,000	6,995,235	8,409,912	0.53%
MEAD CORP	7.350	03/01/17	11,000,000	10,991,606	13,469,784	0.84%
MED MAP LLC MONTANA	7.060	12/01/15	10,090,000	10,090,000	10,090,000	0.63%
MED MAP LLC MONTANA	7.000	06/01/21	6,325,000	6,325,000	6,325,000	0.40%
MERIDIAN TRAILER TRAIN	9.850	01/29/10	1,233,826	1,233,826	1,233,826	0.08%
MERIDIAN TRAILER TRAIN	9.850	01/29/08	1,270,340	1,270,340	1,270,340	0.08%
METROPOLITAN LIFE INSURANCE CO	7.450	11/01/23	10,000,000	9,834,554	10,553,979	0.66%
MILLENIUM AMERICA INC	7.000	11/15/06	4,000,000	3,959,323	4,015,000	0.25%
MISSISSIPPI POWER + LIGHT CO	7.700	07/15/23	11,000,000	10,907,409	11,417,292	0.71%
MOBIL CORP	5.940	01/15/19	9,175,212	9,175,212	9,776,297	0.61%
MORGAN J P + CO INC	0.000	04/15/27	30,000,000	5,072,642	5,518,530	0.35%
NATIONWIDE FINANCIAL SERVICES INC	8.000	03/01/27	6,000,000	5,910,972	6,820,462	0.43%
NEW YORK LIFE INS CORP	7.500	12/15/23	5,000,000	4,799,418	5,314,722	0.33%
NEW YORK TEL CO	7.250	02/15/24	7,000,000	6,778,478	7,449,075	0.47%
NORAM ENERGY CORP	6.500	02/01/08	3,000,000	2,846,617	3,217,407	0.20%
NORFOLK SOUTHERN CORP	7.700	05/15/17	6,000,000	6,028,793	7,925,878	0.50%
NORTHWEST AIRLINES EQUIPMENT TRUST	6.810	08/01/21	10,602,981	10,177,661	10,496,951	0.66%
NORTHWEST AIRLINES EQUIPMENT TRUST	7.935	10/01/20	8,975,066	8,798,151	9,771,603	0.61%
OCCIDENTAL PETROLEUM CORP	7.200	04/01/28	13,000,000	12,850,132	15,729,767	0.98%
OCCIDENTAL PETROLEUM CORP	8.750	01/15/23	6,000,000	5,952,725	8,240,017	0.52%
OHIO POWER CO	7.300	04/01/24	4,000,000	3,700,717	4,318,169	0.27%
OLD REPUBLIC INTERNATIONAL CORP	7.000	06/15/07	5,000,000	4,998,929	5,809,485	0.36%
PPL MONTANA LLC	8.903	07/02/20	18,591,834	18,591,834	20,884,024	1.31%
PACIFIC BELL TEL CO	7.250	11/01/27	6,000,000	5,958,944	6,847,425	0.43%
PANHANDLE EASTERN CORP	8.625	04/15/25	5,000,000	5,078,987	5,632,007	0.35%
PANHANDLE EASTERN PIPE LINE CO	7.950	03/15/23	2,800,000	2,693,927	2,919,000	0.18%
PENNEY J C INC	9.750	06/15/21	3,788,000	3,788,000	3,944,255	0.25%
PENNEY J C INC	7.125	11/15/23	5,000,000	5,059,637	4,706,250	0.29%
PENNEY J C INC	7.650	08/15/16	2,000,000	1,960,601	1,937,500	0.12%
PHILLIPS PETROLEUM CO	7.125	03/15/28	11,000,000	10,843,577	12,455,141	0.78%
ST LOUIS SOUTHWESTERN RY CO	10.100	05/15/05	304,731	304,731	304,731	0.02%
SEARS ROEBUCK ACCEP CORP	7.500	10/15/27	10,000,000	10,080,567	11,084,306	0.69%
SECURITY CAP GROUP INC	7.700	06/15/28	3,000,000	3,548,969	3,652,647	0.23%
SHAWMUT BANK	8.625	02/15/05	5,000,000	5,076,582	5,531,552	0.35%
SONAT INC	7.000	02/01/18	3,000,000	2,999,668	2,490,000	0.16%
SOUTHERN UNION CO	7.600	02/01/24	10,000,000	9,873,583	10,135,414	0.63%
SOUTHWEST GAS CORP	7.500	08/01/06	6,000,000	6,088,245	6,606,503	0.41%
SOUTHWEST GAS CORP	8.375	02/15/11	6,000,000	5,983,767	6,993,878	0.44%
SOUTHWESTERN BELL TEL CO	7.250	07/15/25	7,000,000	7,124,640	7,231,162	0.45%
SOUTHWESTERN BELL TEL CO	7.000	11/15/27	3,000,000	2,996,637	3,337,258	0.21%
SUNAMERICA INC	8.125	04/28/23	13,000,000	13,018,547	17,089,310	1.07%
SUPER VALUE STORE	8.875	11/15/22	6,000,000	6,136,691	6,293,101	0.39%
SUPER VALUE INC	7.875	08/01/09	3,000,000	3,004,386	3,551,016	0.22%
TELE COMMUNICATIONS INC	7.875	08/01/13	3,000,000	2,868,374	3,646,527	0.23%
TENNECO PACKAGING INC	7.200	12/15/05	5,000,000	5,019,096	5,567,046	0.35%
TEXAS GAS TRANSMISSION CORP	7.250	07/15/27	3,000,000	2,759,456	3,407,938	0.21%
TEXAS UTILITIES ELEC CO	7.875	03/01/23	3,000,000	2,963,200	3,128,417	0.20%
TRANSCONTINENTAL GAS PIPE LINE	7.250	12/01/26	3,000,000	3,003,068	2,962,500	0.19%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
TYSON FOODS INC	8.250	10/01/11	7,000,000	7,309,485	8,290,797	0.52%
US BANK NA MINNEAPOLIS	6.500	02/01/08	5,000,000	4,999,334	5,811,060	0.36%
ULTRAMAR DIAMOND SHAMROCK CORP	7.200	10/15/17	3,000,000	2,980,189	2,913,827	0.18%
UNION CARBIDE CHEMS + PLASTICS	8.750	08/01/22	6,000,000	6,304,824	6,256,814	0.39%
UNION OIL CO CALIFORNIA	7.000	05/01/28	9,000,000	8,684,829	10,222,552	0.64%
UNION OIL CO CALIFORNIA	6.700	10/15/07	5,000,000	4,993,068	5,340,694	0.33%
UNION PACIFIC RR CO	7.750	07/01/12	5,509,068	5,509,068	6,837,860	0.43%
UNION PACIFIC RESOURCES GROUP INC	7.050	05/15/18	12,000,000	11,927,453	14,868,479	0.93%
UNION TANK CAR CO	7.125	02/01/07	6,000,000	5,997,698	6,942,166	0.43%
UNION TANK CAR CO	7.450	06/01/09	5,000,000	5,000,000	6,052,045	0.38%
UNITED AIRLINES EQUIPMENT TRUST	7.032	10/01/10	9,408,328	9,337,475	7,855,954	0.49%
WAL MART STORES INC PASS THRU TRUST	7.490	06/21/07	4,066,288	4,041,365	4,837,037	0.30%
WELLS FARGO + CO	6.875	04/01/06	7,000,000	6,908,637	7,913,557	0.50%
WESTERN PROPERTIES TRUST	7.875	02/15/04	7,000,000	6,998,724	7,242,150	0.45%
WESTERN PROPERTIES TRUST	7.200	09/15/08	3,000,000	2,907,601	3,451,566	0.22%
WESTINGHOUSE ELECTRIC CORP	8.625	08/01/12	8,000,000	8,216,552	10,742,816	0.67%
WESTVACO CORP	7.000	08/15/23	5,000,000	4,538,104	5,181,670	0.32%
WESTVACO CORP	7.650	03/15/27	9,000,000	8,963,440	10,608,519	0.66%
WEYERHAEUSER CO	8.500	01/15/25	7,000,000	7,303,011	8,923,716	0.56%
WILLAMETTE INDUSTRIES INC	7.000	02/01/18	4,000,000	3,976,419	4,765,104	0.30%
WILMINGTON TRUST TUSCON ELECTRIC	10.211	01/01/09	9,350,148	9,350,148	9,350,148	0.58%
WINN DIXIE TRUST	0.000	09/01/24	70,000,000	10,857,643	13,300,000	0.83%
Corporate Other	**139 Issue(s)**		**1,384,625,655**	**848,475,727**	**930,781,145**	**58.23%**
FEDERAL HOME LOAN POOL G10173	6.000	01/01/09	1,882,158	1,878,688	1,963,326	0.12%
FEDERAL HOME LOAN POOL G30006	7.000	07/01/13	1,268,997	1,277,333	1,349,605	0.08%
FEDERAL HOME LOAN MTG PC REMIC IO	8.313	08/15/07	2,569,916	150,000	205,073	0.01%
FEDERAL HOME LOAN MTG PC REMIC IO	8.313	09/15/07	1,823,626	100,000	151,699	0.01%
FEDERAL HOME LOAN POOL C01523	5.000	03/01/33	14,854,419	14,725,608	15,115,532	0.95%
FEDERAL HOME LOAN POOL E00247	5.500	10/01/08	2,564,752	2,557,530	2,678,363	0.17%
FEDERAL HOME LOAN POOL E00659	6.000	04/01/14	1,795,855	1,794,478	1,875,546	0.12%
FEDERAL HOME LOAN POOL E01376	4.000	04/01/18	29,585,712	29,347,231	29,860,921	1.87%
FEDERAL HOME LOAN MTG PC REMIC	9.300	11/15/20	291,098	283,170	290,728	0.02%
FEDERAL NATIONAL MTG ASSN REMIC IO	8.438	08/25/07	2,659,291	200,000	235,236	0.01%
FEDERAL NATIONAL MTG ASSN REMIC	9.500	03/25/20	983,344	970,310	1,094,475	0.07%
FNMA POOL 109031	6.695	08/01/05	122,492	121,748	128,588	0.01%
FNMA POOL 303365	6.500	05/01/09	4,247,868	4,196,758	4,496,932	0.28%
FNMA POOL 303125	7.500	01/01/10	1,242,881	1,239,320	1,331,484	0.08%
FNMA POOL 303202	6.500	05/01/14	1,878,460	1,861,854	1,987,250	0.12%
FNMA POOL 303590	7.000	11/01/10	1,276,825	1,276,825	1,361,963	0.09%
FNMA POOL 313999	6.000	02/01/13	2,550,964	2,538,743	2,676,917	0.17%
FNMA POOL 572220	6.000	03/01/16	3,543,650	3,533,798	3,707,544	0.23%
FNMA POOL 592327	5.500	06/01/16	6,420,569	6,274,876	6,684,916	0.42%
GNMA II POOL 001254	9.500	09/20/19	47,986	47,776	54,350	0.00%
GNMA POOL 046249	10.000	12/15/10	22,052	21,939	25,237	0.00%
GNMA POOL 135544	10.000	01/15/16	77,143	76,779	90,653	0.01%
GNMA POOL 237102	9.500	11/15/17	31,755	31,597	35,978	0.00%
Government-Mortgage Backed	**23 Issue(s)**		**81,741,813**	**74,506,361**	**77,402,316**	**4.84%**
ASTRO OFFSHORE CORP USGG XI	6.000	12/20/19	13,307,000	13,307,000	13,307,000	0.83%
CALLABLE ZERO CPN TRUST	0.000	11/01/25	35,000,000	6,903,176	7,289,450	0.46%
ENSCO OFFSHORE CO USGG XI	6.360	12/01/15	8,333,421	8,333,421	9,187,930	0.57%
FEDERAL HOME LOAN MORTGAGE CORP	3.250	06/18/18	15,000,000	14,926,334	14,707,305	0.92%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/21/32	100,000,000	13,621,311	14,187,000	0.89%
FEDERAL HOME LOAN BANKS	6.395	06/03/14	4,000,000	3,719,805	4,763,198	0.30%
FEDERAL HOME LOAN BANKS	7.000	08/26/19	8,000,000	7,973,226	9,881,864	0.62%
FEDERAL HOME LOAN BANKS	7.450	02/03/20	15,000,000	15,101,792	19,368,870	1.21%
FEDERAL HOME LOAN MORTGAGE CORP	8.250	06/01/26	8,000,000	8,368,915	11,052,960	0.69%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	06/05/28	150,000,000	27,804,015	32,268,150	2.02%
FEDERAL HOME LOAN MORTGAGE CORP	0.000	09/14/29	100,000,000	16,955,503	18,288,000	1.14%
FEDERAL NATIONAL MORTGAGE ASSN	6.000	05/15/08	30,000,000	29,363,766	34,589,556	2.16%
FEDERAL NATIONAL MORTGAGE ASSN	7.250	01/15/10	17,000,000	16,996,138	21,023,961	1.32%
FEDERAL NATIONAL MORTGAGE ASSN	7.125	01/15/30	20,000,000	21,494,085	25,967,004	1.62%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
FEDERAL NATIONAL MORTGAGE ASSN	6.625	11/15/10	5,000,000	5,160,332	6,040,566	0.38%
GLOBAL INDUSTRIES LTD USGG XI	7.710	02/15/25	8,800,000	8,800,000	8,800,000	0.55%
STUDENT LOAN MARKETING ASSN	0.000	05/15/14	150,000,000	52,996,229	72,090,900	4.51%
TUNISIA REPUBLIC USGG	6.710	02/01/24	4,000,000	3,796,504	4,000,000	0.25%
USGG SHIPPING + CENAC TOWING USGG XI	7.000	05/15/21	11,719,000	11,719,000	11,719,000	0.73%
U S ARMY HOSPITALITY FUND	7.467	05/01/32	14,860,000	14,860,000	14,860,000	0.93%
UNITED STATES TREASURY BOND STRIP	0.000	11/15/11	19,000,000	14,469,399	17,674,651	1.11%
UNITED STATES TREASURY BONDS	7.250	05/15/16	21,000,000	21,777,798	27,936,563	1.75%
UNITED STATES TREASURY BONDS	7.500	11/15/16	19,000,000	19,573,128	25,807,343	1.61%
VESSEL MGMT SVCS INC USGG XI	6.080	05/20/24	12,600,000	12,600,000	14,036,526	0.88%
VESSEL MGMT SVCS INC USGG XI	6.750	06/15/25	9,000,000	9,000,000	10,594,890	0.66%
Government Direct-Indirect	**25 Issue(s)**		**798,619,421**	**379,620,878**	**449,442,686**	**28.12%**
AMERICAN PRESIDENT COS LTD	7.125	11/15/03	9,000,000	8,997,533	8,730,000	0.55%
AMERICAN PRESIDENT COS LTD	8.000	01/15/24	5,000,000	4,724,802	3,500,000	0.22%
CANADIAN NATIONAL RAILWAY CO	6.800	07/15/18	6,000,000	5,964,421	6,831,116	0.43%
CANADIAN PACIFIC LTD	9.450	08/01/21	5,000,000	5,148,870	7,291,402	0.46%
EASTERN ENERGY LTD	7.250	12/01/16	5,000,000	4,939,669	6,407,860	0.40%
EQUITABLE LIFE ASSUR SOC U S A	6.950	12/01/05	5,000,000	4,959,246	5,529,694	0.35%
GREAT LAKES POWER INC	9.000	08/01/04	5,000,000	4,997,456	5,341,167	0.33%
HOUSEHOLD FINANCE CORP	6.875	03/01/07	4,000,000	3,948,841	4,605,787	0.29%
HOUSEHOLD FINANCE CORP	6.500	11/15/08	5,000,000	4,832,347	5,792,618	0.36%
IBP FINANCIAL CO CANADA	7.450	06/01/07	3,000,000	2,999,188	3,255,000	0.20%
MACMILLAN BLOEDEL LTD	7.700	02/15/26	10,000,000	9,826,022	11,812,719	0.74%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	6,000,000	5,964,548	6,720,000	0.42%
PHILIPS ELECTRONICS NV	7.750	04/15/04	5,000,000	4,988,182	5,242,630	0.33%
TRANSCANADA PIPELINES LTD	8.500	03/20/23	5,000,000	5,152,866	5,232,567	0.33%
UNITED MEXICAN STATES	8.000	09/24/22	5,000,000	4,831,569	5,625,000	0.35%
Yankee Bonds	**15 Issue(s)**		**83,000,000**	**82,275,560**	**91,917,558**	**5.75%**
SHORT TERM INVESTMENT POOL (STIP)			29,436,910	29,436,910	29,436,910	1.84%
Cash Equivalents	**1 Issue(s)**		**29,436,910**	**29,436,910**	**29,436,910**	**2.44%**
RFBP Total	**204 Issue(s)**		**2,387,423,799**	**1,424,315,436**	**1,588,980,615**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Trust Funds Bond Pool, as of June 30, 2003 and 2002, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Trust Funds Bond Pool, as of June 30, 2003 and 2002, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

November 4, 2003

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STATE OF MONTANA BOARD OF INVESTMENTS
TRUST FUNDS BOND POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2003 AND 2002

		2003		2002
Assets				
Cash	$	10,238,624	$	0
Security lending cash collateral (Notes 3 and 4)		76,755,887		102,391,378
Interest receivable		18,928,190		21,432,301
Investments managed at fair value (amortized cost of $1,139,041,264 in 2003 and $1,125,137,879 in 2002)(Notes 2 and 4)		1,251,081,198		1,154,302,005
Total assets	$	1,357,003,899	$	1,278,125,684
Liabilities				
Income due participants (Note 2)	$	7,509,196	$	6,911,434
Security lending obligations (Notes 3 and 4)		76,755,887		102,391,378
Security lending expense payable		78,517		154,295
Total liabilities		84,343,600		109,457,107
Net asset value	$	1,272,660,299	$	1,168,668,577
Units Outstanding (Note 2)		12,056,106		11,851,730
Unit Value (Note 2)	$	105.56	$	98.61

STATEMENT OF CHANGES IN NET ASSET VALUE FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Net asset value, beginning of year	$	1,168,668,577	$	1,175,369,082
Value of units purchased by participants		44,047,976		128,730,156
Value of units sold by participants		(21,937,900)		(150,143,501)
Changes in fair value of investments managed		81,881,646		14,712,840
Net asset value, end of year	$	1,272,660,299	$	1,168,668,577

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Investment income (Note 2)	$	81,407,076	$	83,349,963
Security lending income		1,367,131		3,373,380
Security lending expense		(1,239,426)		(2,995,268)
Administrative expenses		(225,408)		(233,652)
Income due participants, beginning of year		6,911,434		7,682,046
Income available for distribution		88,220,807		91,176,469
Distribution		80,711,611		84,265,035
Income due participants, end of year (Note 2)	$	7,509,196	$	6,911,434

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Trust Funds Bond Pool (TFBP) was created by the Board to allow qualifying funds, per section 17-6-201, MCA, to participate in a diversified pool. The TFBP was created on October 1, 1995, by the transfer of all fixed income and variable-rate securities owned by the Coal Severance Tax Permanent Trust, Resource Indemnity Trust, Coal Tax Park Trust, Trust and Legacy, Coal Tax Cultural Trust and Treasure State Endowment Trust funds. Since the pool's creation in 1995, the funds listed below became participants in the TFBP:

University of Montana Endowment Fund	January 1996
Coal Severance Tax School Bond Contingency Fund	March 1996
Montana Pole Superfund	September 1996
State of Montana Section 457 Deferred Compensation Plan *	April 1997
Upper Clark Fork River Basin (UCFRB) Restoration	July 1999
Upper Clark Fork River Basin (UCFRB) Cost Recovery	July 1999
Streamside Tailings Operable Unit	July 1999
Treasure State Regional Water Systems	July 2000
Tobacco Trust Fund	January 2001
University of Montana Designated Fund	July 2002
University of Montana Other Fund	July 2002
Montana Tech of the U of M	March 2003

*** In January 2002, the State of Montana Section 457 Deferred Compensation Plan withdrew from the TFBP.**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The TFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, government, Yankee securities and cash investments. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Government securities include direct and indirect obligations of the U.S. Treasury and state and local government bonds. Yankee bonds are U.S. dollar denominated securities issued by foreign corporations and governments and U.S. companies issuing debt in foreign markets.

The TFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as government mortgage-backed securities in the investment risk and portfolio disclosures. (See Note 4 on Investment Risk Categories and Note 7 for the Year End Portfolio.)

TFBP fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The TFBP did not hold any variable rate securities as of June 30, 2003 and June 30, 2002.

Investments are presented in the Statement of Net Asset Value at fair value. Fair values for securities are determined primarily by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank. Amortized cost, parenthetically disclosed, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

The TFBP, as an internal investment pool, invests its excess cash in the Board's Short Term Investment Pool, STIP, an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

Participant Units

The Coal Severance Tax Permanent Trust, Resource Indemnity Trust, Coal Tax Park Trust, Trust and Legacy, Coal Tax Cultural Trust, and Treasure State Endowment Trust funds transferred all fixed income and variable-rate securities, at amortized cost, into the TFBP at the start-up date and were issued units according to the fair value of each participant's portfolio. The initial unit value as of October 1, 1995, was $100.00. Unit values are calculated weekly and at month end, based on portfolio pricing, to allow for participant transactions to occur as determined by the investment staff.

The June 30, 2003 unit value of $105.56 increased from a June 30, 2002 unit value of $98.61. Interest rates declined during the fiscal year, which has the effect of increasing bond prices and the pool unit value. A one percent (1%) change in interest rates is expected to have a five to seven percent (5%-7%) inverse change in the unit value. TFBP investments are considered long-term in nature and participants are not expected to sell units for liquidity for short-to-intermediate term needs.

Broker Receivable/Payable

TFBP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the TFBP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Other

Accumulated income, recorded as Income Due Participants, is distributed monthly on the first calendar day of each month. Realized portfolio gains/losses are distributed at least annually to the participants.

Investment income reported in the Statement of Investment Income and Distribution includes interest accruals, realized gains/losses, amortization/accretion and miscellaneous income.

Administrative expenses incurred by the Board are charged daily to TFBP based on the Board's expenses applicable to TFBP. These expenses include costs for the custodial bank contract.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, State Street lent, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2003 and 2002 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2003 and 2002. Moreover, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street.

During fiscal years 2003 and 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2003 and June 30, 2002, the Board had no credit risk exposure to borrowers.

As of June 30, 2003, the carrying and fair value of the underlying securities on loan for the Trust Funds Bond Pool was $57,555,310 and $70,451,001, respectively. The cash collateral provided for the securities on loan totaled $76,755,887.

As of June 30, 2002, the carrying and fair value of the underlying securities on loan for the Trust Funds Bond Pool was $106,007,425 and $116,106,702, respectively. The collateral provided for the securities on loan totaled $123,373,283 representing $102,391,378 in cash and $20,981,905 in securities collateral.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below to give an indication of the level of risk assumed at June 30, 2003 and June 30, 2002. Category 1 includes investments that are insured or registered, or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 12,255,000	$ 0	$ 0	$ 12,255,000	$ 12,255,000
Corporate Other	604,884,995	0	6,505,228	611,390,223	664,571,494
US Govt Mortgage-Backed	76,290,821	0	0	76,290,821	79,160,041
US Govt Direct/Indirect	245,586,129	0	51,050,082	296,636,211	340,815,409
Yankee Bonds	92,470,191	0	0	92,470,191	104,278,410
State and Local Government	13,884,836	0	0	13,884,836	13,886,862
STIP	36,113,982	0	0	36,113,982	36,113,982
Total Investments	$ 1,081,485,954	$ 0	$ 57,555,310	$ 1,139,041,264	$ 1,251,081,198
Securities Lending Collateral Investment Pool			$ 76,755,887	$ 76,755,887	$ 76,755,887

***At June 30, 2003, these underlying securities, with a fair value of $70,451,001, were loaned for cash collateral under a security lending agreement with the state's agent.**

Risk as of June 30, 2002

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 2,714,047	$ 0	$ 0	$ 2,714,047	$ 2,824,015
Corporate Other	689,693,208	0	9,228,927	698,922,135	700,891,576
US Govt Mortgage-Backed	52,444,484	0	0	52,444,484	53,774,861
US Govt Direct/Indirect	176,648,231	18,002,274	78,776,224	273,426,729	298,282,540
Yankee Bonds	74,094,573	0	0	74,094,573	74,990,810
State and Local Government	17,551,079	0	0	17,551,079	17,553,371
STIP	5,984,832	0	0	5,984,832	5,984,832
Total Investments	$ 1,019,130,454	$ 18,002,274	$ 88,005,151	$ 1,125,137,879	$ 1,154,302,005
Securities Lending Collateral Investment Pool			$ 102,391,378	$ 102,391,378	$ 102,391,378

***At June 30, 2002, these underlying securities, with fair values of $18,736,483 and $97,370,219 respectively, were loaned for securities and cash collateral under a security lending agreement with the state's agent.**

With the exception of the US government securities, the above instruments have credit risk as measured by major credit rating services. Credit risk is defined as the risk that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires TFBP investments, at the time of purchase, to be rated investment grade as defined by Moody's or Standard & Poor's (S&P) rating services. The US government securities are guaranteed directly or indirectly by the US government.

Market risk for the above securities is caused by changes in the price or principal value of the security due to changes in interest rates and market liquidity.

As reported in the U.S. government mortgage-backed category, the TFBP portfolio holds REMICs totaling $706,427 and $1,265,484, respectively, at amortized cost, as of June 30, 2003 and June 30, 2002. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages. When underlying mortgages are prepaid, the interest cash flows are reduced while principal cash flows are increased. If homeowners pay on mortgages longer than anticipated, the cash flow effect would be the opposite.

Corporate asset-backed securities represent debt securities collateralized by a pool of assets. The RFBP corporate asset-backed security is secured by lease payments and real estate. Credit risk for corporate asset backed securities is generally less than other coporate securities because assets are held by a third party.

As of June 30, 2003 and June 30, 2002, Enron Corp., and Burlington Industries, Inc. presented legal and higher credit risks to the Board.

The TFBP holds a $2 million par, 6.75% Enron bond maturing August 1, 2009, a $3 million par 6.40% Enron bond maturing July 15, 2006 and a $3 million par 6.95% Enron bond maturing July 15, 2028. The combined book value of these securities, was $7,560,870 as of November 30, 2001. On December 12, 2001, the Enron Corp. filed for Chapter 11 bankruptcy protection. Accordingly, the November 2001 book value for the three issues was reduced to $3.2 million as of June 30, 2002. In October 2002, the book value was reduced to $1.6 million for the three issues. In July 2003, the three issues were sold, on the market, for a total of $1.35 million.

The Board owns a Burlington Industries, Inc., $4 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $3,739,760 to $1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. This sale is expected to close in November 2003. Under the company's recovery plan, the Board will receive cash for its unsecured claim.

As of June 30, 2002, Rite Aid and WorldCom Inc. presented a higher credit risk to the Board.

The TFBP owns a Rite Aid $3,000,000 par, 7.13% bond maturing January 15, 2007. In May 2000, the Board was subordinated to a secured bank line of credit on this issue and the bond ratings were downgraded by the Moody's and Standard & Poor's bond ratings agencies. Based on this subordination and ratings downgrade, the book value was reduced to $2,400,000 as of June 30, 2000. During fiscal year 2001, the book value was further reduced to $1,800,000. Due to an improving credit trend, amortization was resumed in June 2001. The book value of this security at June 30, 2002 is $2,374,356. As of June 30, 2002, Rite Aid did not represent a credit risk. In December 2002, this bond was sold, on the market, for $1.5 million in principal plus interest of $45,719.

The TFBP portfolio includes a $9,000,000 par, 6.95% WorldCom Inc. bond maturing August 15, 2028. The book value of this bond, originally purchased at a discount, was $8,216,100 on June 30, 2002. On July 21, 2002, WorldCom Inc. filed for Chapter 11 bankruptcy protection. As of July 31, 2002, the reduced book value is $3,600,000. On November 7, 2002, the Attorney General for the State of Montana filed a lawsuit against certain WorldCom executives, directors and financial institutions associated with WorldCom such as Arthur Andersen and CitiGroup. The lawsuit, filed in Lewis and Clark County, Montana, alleges that the defendants filed "false and misleading registration statements" relating to the purchase of the bonds by the Montana Board of Investments. In December 2002, this bond was sold, on the market, for $2.7 million.

5. PARTICIPANT LOAN

In accordance with Senate Bill 495 enacted by the 2001 Legislature, the Coal Severance Tax Permanent Trust loaned 483,604 TFBP shares, with a book value of $46,366,904, to the Trust and Legacy fund on July 2, 2001. The loan proceeds were deposited in the Trust and Legacy Fund. A loan receivable was recorded in the Coal Severance Tax Permanent Trust and a corresponding liability was recorded in the Guarantee Fund, a General Fund sub-fund. The August 2002 Special

Legislative Session approved the request to record this activity in a state special revenue fund of the Office of Public Instruction rather than in the Guarantee Fund.

6. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $8 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $861,811 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of $113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the Board received $9,092,920 in principal and interest plus $240,000 as a consent fee.

7. YEAR END PORTFOLIO

The June 30, 2003 TFBP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
AERO 1 HQ FINANCE TRUST	4.64	07/07/10	12,255,000	12,255,000	12,255,000	0.98%
Corporate Asset-Backed	**1 Issue(s)**		**12,255,000**	**12,255,000**	**12,255,000**	**0.98%**
AMERICA WEST AIRLINES EQUIPMENT TRUST	7.93	01/02/19	3,546,954	3,546,954	3,761,332	0.30%
AMERICAN AIRLINES 1991 EQUIPMENT TRUST	9.73	09/29/14	5,000,000	4,977,637	2,625,000	0.21%
AMERICAN AIRLINE EQUIPMENT TRUST	6.98	05/23/21	6,505,121	6,490,711	5,334,199	0.43%
AMERICAN TRANS AIR EQUIPMENT TRUST	8.04	07/15/17	6,278,860	6,278,860	6,666,003	0.53%
ARCHER DANIELS MIDLAND CO	10.25	01/15/06	5,000,000	4,995,609	6,008,681	0.48%
ASHLAND OIL CO	8.80	11/15/12	2,500,000	2,542,457	3,147,550	0.25%
BANK ONE	6.25	02/15/08	4,000,000	3,848,798	4,589,367	0.37%
BANKBOSTON NA	6.38	03/25/08	4,000,000	3,857,894	4,557,422	0.36%
BORDEN INC	9.25	06/15/19	1,500,000	1,455,821	975,000	0.08%
BORG WARNER AUTOMOTIVE INC	7.00	11/01/06	1,000,000	1,012,227	1,123,684	0.09%
BURLINGTON INDUSTRIES INC	7.25	09/15/05	4,000,000	800,000	1,680,000	0.13%
BURLINGTON NORTHERN INC	7.50	07/15/23	5,000,000	4,628,297	5,173,055	0.41%
BURLINGTON NORTHERN RR CO	7.97	01/01/15	3,901,688	3,901,688	4,820,659	0.39%
BURLINGTON NORTHERN SANTA FE RY	7.16	01/02/20	14,038,275	14,038,275	15,866,696	1.27%
CIT GROUP EQUIPMENT TRUST	6.49	01/05/21	12,228,472	12,228,472	12,545,860	1.00%
CIT GROUP INC	7.38	04/02/07	5,000,000	5,439,441	5,708,850	0.46%
CNA FINANCIAL CORP	6.25	11/15/03	10,000,000	10,054,219	10,109,808	0.81%
CNA FINANCIAL CORP	6.45	01/15/08	5,000,000	5,061,510	5,221,130	0.42%
CSX CORP	7.45	05/01/07	2,000,000	1,998,841	2,340,136	0.19%
CSX CORP	7.90	05/01/17	5,000,000	4,997,993	6,655,543	0.53%
CHAMPION INTERNATIONAL CORP	7.63	09/01/23	5,000,000	4,850,086	5,220,462	0.42%
CHAMPION INTERNATIONAL CORP	7.15	12/15/27	3,000,000	2,937,387	3,373,298	0.27%
CHICAGO + NORTH WESTERN RY	8.91	01/01/15	4,205,942	4,205,942	5,612,459	0.45%
CITIGROUP INC	7.88	05/15/25	4,000,000	4,076,846	5,234,016	0.42%
CITIGROUP INC	6.20	03/15/09	5,000,000	4,801,184	5,760,142	0.46%
CITICORP CAPITAL II	8.02	02/15/27	6,000,000	5,953,635	7,060,477	0.56%
CLEVELAND ELECTRIC ILLUM CO	9.00	07/01/23	2,000,000	1,990,249	2,092,693	0.17%
CLEVELAND ELECTRIC ILLUM CO	7.13	07/01/07	5,000,000	4,989,329	5,757,680	0.46%
CONAGRA INC	9.88	11/15/05	5,000,000	5,163,444	5,897,535	0.47%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.55	02/02/19	6,097,356	6,097,356	5,762,001	0.46%
CORPORATE PROPERTY REIT	7.75	08/15/04	5,000,000	5,016,454	5,292,636	0.42%
CORPORATE PROPERTY REIT	7.88	03/15/16	3,000,000	2,993,358	3,671,441	0.29%
DAYTON HUDSON CORP	7.65	08/01/23	2,745,000	2,753,240	2,863,770	0.23%
DEER PARK REFINING L P	6.47	12/15/08	2,873,850	2,832,701	3,247,057	0.26%
DELTA AIR LINES INC	10.14	08/14/12	1,000,000	1,000,000	775,000	0.06%
DELTA AIR LINES INC	10.14	08/14/12	2,000,000	1,993,085	1,550,000	0.12%
DELTA AIR LINES INC	10.00	06/05/13	2,000,000	2,000,000	800,000	0.06%
DILLARD DEPT STORES INC	7.75	07/15/26	3,000,000	2,973,819	2,692,500	0.22%
ENRON CORP	6.75	08/01/09	2,000,000	400,000	385,000	0.03%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
ENRON CORP	6.40	07/15/06	3,000,000	600,000	577,500	0.05%
ENRON CORP	6.95	07/15/28	3,000,000	600,000	573,750	0.05%
ENSERCH CORP	7.13	06/15/05	5,000,000	5,026,144	5,368,758	0.43%
FMC CORP	6.38	09/01/03	4,000,000	3,999,628	4,010,000	0.32%
FIRST BANK NA	8.35	11/01/04	5,000,000	4,999,332	5,407,141	0.43%
FIRST CHICAGO CORP	6.38	01/30/09	4,000,000	3,784,677	4,607,997	0.37%
FIRST INTERSTATE BANC SYSTEM MONTANA	7.50	10/01/06	4,980,000	4,980,000	4,980,000	0.40%
FIRST SECURITY CORP	6.88	11/15/06	4,000,000	3,943,252	4,584,545	0.37%
FIRST UNION CORP	8.00	08/15/09	5,000,000	5,036,335	5,365,313	0.43%
FIRST UNION BANK	5.80	12/01/08	4,000,000	3,757,268	4,511,398	0.36%
FLORIDA GAS TRANSMISSION CO	9.19	11/01/24	5,000,000	5,000,000	5,769,209	0.46%
FLORIDA GAS TRANSMISSION CO	7.00	07/17/12	3,000,000	2,996,066	3,103,768	0.25%
FORD MOTOR CREDIT CO	6.75	05/15/05	5,000,000	5,004,963	5,272,852	0.42%
FORD MOTOR CREDIT CO	7.38	10/28/09	7,000,000	7,007,231	7,355,550	0.59%
GTE CORP	7.90	02/01/27	6,000,000	6,000,000	6,865,552	0.55%
GTE SOUTH INC	7.50	03/15/26	6,000,000	5,920,907	6,762,412	0.54%
GENERAL AMERICAN TRANSN CORP	8.42	01/01/15	8,074,469	8,074,469	7,678,673	0.61%
GENERAL MOTORS ACCEPTANCE CORP	0.00	12/01/12	25,000,000	13,750,330	13,048,025	1.04%
GENERAL MOTORS ACCEPTANCE CORP	6.13	08/28/07	5,000,000	5,016,147	5,210,905	0.42%
GEORGIA PACIFIC CORP	9.13	07/01/22	2,000,000	1,964,679	1,897,500	0.15%
GEORGIA PACIFIC CORP	8.25	03/01/23	5,000,000	5,059,874	4,425,000	0.35%
GEORGIA PACIFIC CORP	8.63	04/30/25	2,000,000	2,100,862	1,820,000	0.15%
GEORGIA PACIFIC CORP	7.75	11/15/29	2,000,000	1,643,894	1,780,000	0.14%
ILLINOIS BELL TEL CO	6.63	02/01/25	2,000,000	1,796,058	2,078,544	0.17%
INTERNATIONAL PAPER CO	6.88	11/01/23	2,000,000	1,975,809	2,195,697	0.18%
JPM CAPITAL	7.54	01/15/27	4,000,000	3,784,041	4,469,151	0.36%
KCT INTERMODAL TRANSPORTATION CORP	6.88	08/01/18	1,876,933	1,876,933	2,057,808	0.16%
K N ENERGY INC	7.25	03/01/28	2,000,000	1,959,119	2,332,262	0.19%
KELLWOOD CO	7.63	10/15/17	8,000,000	7,913,594	7,720,000	0.62%
KERR MCGEE CORP	7.13	10/15/27	3,000,000	3,038,242	3,383,105	0.27%
LEHMAN BROTHERS HOLDINGS INC	0.00	07/28/28	20,000,000	2,941,363	3,160,000	0.25%
MARSH + MCLENNAN COS INC	7.13	06/15/09	5,000,000	5,072,624	6,007,080	0.48%
MEAD CORP	7.35	03/01/17	4,000,000	3,996,948	4,898,103	0.39%
MED MAP L L C MONTANA	7.06	12/01/15	4,710,000	4,710,000	4,710,000	0.38%
MED MAP L L C MONTANA	7.00	06/01/21	4,865,000	4,865,000	4,865,000	0.39%
METROPOLITAN LIFE INSURANCE CO	7.45	11/01/23	5,000,000	4,894,144	5,276,990	0.42%
MILLENIUM AMERERICA INC	7.00	11/15/06	1,000,000	989,831	1,003,750	0.08%
MISSISSIPPI POWER + LIGHT CO	7.70	07/15/23	4,000,000	3,969,278	4,151,742	0.33%
MOBIL CORP	5.94	01/15/19	9,175,212	9,175,212	9,776,297	0.78%
MORGAN J P + CO INC	0.00	04/15/27	70,000,000	11,836,164	12,876,570	1.03%
NATIONWIDE FINANCIAL SERVICES INC	8.00	03/01/27	4,000,000	3,940,648	4,546,974	0.36%
NEW YORK TEL CO	7.25	02/15/24	3,000,000	2,905,062	3,192,461	0.26%
NORAM ENERGY CORP	6.50	02/01/08	2,000,000	1,942,334	2,144,938	0.17%
NORFOLK SOUTHERN CORP	7.70	05/15/17	4,000,000	4,013,633	5,283,918	0.42%
NORFOLK SOUTHERN CORP	7.35	05/15/07	6,500,000	6,504,428	7,612,374	0.61%
NORTHWEST AIRLINES EQUIPMENT TRUST	6.81	08/01/21	11,486,563	11,167,055	11,371,697	0.91%
NORTHWEST AIRLINES EQUIPMENT TRUST	7.94	10/01/20	4,487,533	4,437,420	4,885,801	0.39%
OCCIDENTAL PETROLEUM CORP	7.20	04/01/28	7,000,000	6,872,758	8,469,875	0.68%
OCCIDENTAL PETROLEUM CORP	8.75	01/15/23	4,000,000	4,000,000	5,493,345	0.44%
OHIO POWER CO	7.30	04/01/24	4,000,000	3,700,717	4,318,169	0.35%
OLD REPUBLIC INTERNATIONAL CORP	7.00	06/15/07	4,000,000	3,999,143	4,647,588	0.37%
PPL MONTANA LLC	8.90	07/02/20	18,591,834	18,591,834	20,884,024	1.67%
PACIFIC BELL	7.25	11/01/27	4,000,000	3,972,629	4,564,950	0.36%
PANHANDLE EASTERN PIPE LINE CO	7.95	03/15/23	5,000,000	4,944,351	5,212,500	0.42%
PENNEY J C INC	7.13	11/15/23	3,000,000	3,035,782	2,823,750	0.23%
PENNEY J C INC	7.65	08/15/16	3,000,000	2,973,259	2,906,250	0.23%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
PHILLIPS PETROLEUM CO	7.13	03/15/28	4,000,000	3,943,119	4,529,142	0.36%
SEARS ROEBUCK ACCEP CORP	7.50	10/15/27	5,000,000	5,017,150	5,542,153	0.44%
SECURITY CAP GROUP INC	7.70	06/15/28	2,000,000	2,365,979	2,435,098	0.19%
SONAT INC	7.00	02/01/18	2,000,000	1,999,778	1,660,000	0.13%
SOUTHERN UNION CO	7.60	02/01/24	10,000,000	9,246,324	10,135,414	0.81%
SOUTHWEST GAS CORP	7.50	08/01/06	4,000,000	4,239,838	4,404,336	0.35%
SOUTHWEST GAS CORP	8.38	02/15/11	8,000,000	8,009,170	9,325,171	0.75%
SOUTHWESTERN BELL TEL CO	7.25	07/15/25	3,000,000	3,053,417	3,099,070	0.25%
SOUTHWESTERN BELL TEL CO	7.00	11/15/27	2,000,000	1,997,758	2,224,838	0.18%
SPRINT CAPITAL CORP	5.88	05/01/04	5,000,000	5,000,000	5,134,453	0.41%
SUNAMERICA INC	8.13	04/28/23	7,000,000	7,040,706	9,201,936	0.74%
SUPER VALU INC	8.88	11/15/22	9,000,000	9,040,845	9,439,651	0.75%
SUPER VALU INC	7.88	08/01/09	7,000,000	6,986,589	8,285,704	0.66%
TELE COMMUNICATIONS INC	7.88	08/01/13	2,000,000	1,977,146	2,431,018	0.19%
TEXAS GAS TRANSMISSION CORP	7.25	07/15/27	2,000,000	1,839,637	2,271,959	0.18%
TEXAS UTILITIES ELEC CO	7.88	03/01/23	4,000,000	3,950,933	4,171,223	0.33%
TRAILER TRAIN CO	10.30	05/01/04	333,333	333,333	346,200	0.03%
TRANSCONTINENTAL GAS PIPE LINE	7.25	12/01/26	2,000,000	2,011,445	1,975,000	0.16%
TYSON FOODS INC	8.25	10/01/11	3,000,000	3,132,636	3,553,199	0.28%
ULTRAMAR DIAMOND SHAMROCK CORP	7.20	10/15/17	2,000,000	1,986,793	1,942,552	0.16%
UNION CARBIDE CHEMS + PLASTICS	8.75	08/01/22	4,000,000	4,203,216	4,171,209	0.33%
UNION OIL CO CALIFORNIA	7.20	05/15/05	5,000,000	4,999,305	5,447,391	0.44%
UNION OIL CO CALIFORNIA	7.00	05/01/28	6,000,000	5,769,208	6,815,035	0.54%
UNION PACIFIC RR CO	7.75	07/01/12	2,754,534	2,754,534	3,418,930	0.27%
UNION PACIFIC RESOURCES GROUP INC	7.05	05/15/18	6,000,000	5,936,528	7,434,239	0.59%
UNION TANK CAR CO	7.13	02/01/07	2,000,000	1,999,233	2,314,055	0.18%
UNION TANK CAR CO	7.45	06/01/09	5,000,000	5,000,000	6,052,045	0.48%
UNITED AIRLINES EQUIPMENT TRUST	7.03	10/01/10	9,408,328	9,293,700	7,855,954	0.63%
WELLS FARGO + CO	6.88	04/01/06	3,000,000	2,960,844	3,391,524	0.27%
WESTERN PROPERTIES REIT	7.88	02/15/04	6,000,000	5,998,906	6,207,557	0.50%
WESTERN PROPERTIES REIT	7.20	09/15/08	1,000,000	969,200	1,150,522	0.09%
WESTINGHOUSE ELECTRIC CORP	8.63	08/01/12	2,000,000	2,054,138	2,685,704	0.21%
WESTVACO CORP	7.00	08/15/23	5,000,000	4,538,104	5,181,670	0.41%
WESTVACO CORP	7.65	03/15/27	6,000,000	5,975,626	7,072,346	0.57%
WEYERHAEUSER CO	8.50	01/15/25	8,000,000	9,304,981	10,198,532	0.82%
WILLAMETTE INDUSTRIS INC	7.00	02/01/18	1,000,000	933,674	1,191,276	0.10%
WILMINGTON TRUST TUSCON ELECTRIC	10.21	01/01/09	4,675,074	4,675,074	4,675,074	0.37%
WINN DIXIE TRUST	0.00	09/01/24	64,509,810	10,006,064	12,256,864	0.98%
WORLDCOM INC	6.95	08/15/28	9,000,000	3,600,000	2,688,750	0.21%
Corporate Other	**134 Issue(s)**		**769,850,143**	**611,390,223**	**664,571,494**	**53.12%**
FEDERAL HOME LOAN POOL G10814	5.50	05/01/13	1,797,497	1,796,167	1,879,368	0.15%
FEDERAL HOME LOAN POOL G10173	6.00	01/01/09	806,639	805,152	841,426	0.07%
FEDERAL HOME LOAN POOL G30006	7.00	07/01/13	997,069	997,069	1,060,404	0.08%
FEDERAL HOME LOAN PC REMIC	9.15	10/15/20	294,570	291,118	315,839	0.03%
FEDERAL HOME LOAN PC REMIC	6.25	11/15/07	419,163	415,309	438,076	0.04%
FEDERAL HOME LOAN POOL CO1523	5.00	03/01/33	9,902,946	9,817,072	10,077,021	0.81%
FEDERAL HOME LOAN POOL E00247	5.50	10/01/08	1,075,541	1,072,513	1,123,184	0.09%
FEDERAL HOME LOAN POOL E00659	6.00	04/01/14	2,514,197	2,512,270	2,625,765	0.21%
FEDERAL HOME LOAN POOL E01376	4.00	04/01/18	19,723,808	19,564,821	19,907,280	1.59%
FNMA POOL 254233	5.00	03/01/17	12,418,573	12,003,590	12,851,768	1.03%
FNMA POOL 254631	5.00	02/01/18	14,102,930	14,347,059	14,589,757	1.17%
FNMA POOL 303202	6.50	05/01/14	2,817,689	2,792,781	2,980,874	0.24%
FNMA POOL 313999	6.00	02/01/13	1,275,482	1,269,371	1,338,459	0.11%
FNMA POOL 572220	6.00	03/01/16	3,543,650	3,533,798	3,707,544	0.30%
FNMA POOL 592327	5.50	06/01/16	4,938,899	4,826,827	5,142,243	0.41%
GNMA POOL 032974	9.50	09/15/09	33,652	31,999	37,076	0.00%

Security Name		Coupon	Maturity	Par	Book Value	Fair Value	% of Total
GNMA POOL	038164	10.00	01/15/10	80,150	79,903	90,922	0.01%
GNMA POOL	039321	10.00	12/15/09	32,690	32,591	36,960	0.00%
GNMA POOL	042547	10.00	10/15/10	17,024	16,969	19,297	0.00%
GNMA POOL	065459	11.50	04/15/13	11,683	11,554	13,988	0.00%
GNMA POOL	166690	9.00	06/15/16	17,948	17,844	20,162	0.00%
GNMA POOL	281467	9.00	09/15/19	55,263	55,045	62,629	0.01%
Government-Mortgage Backed		**22 Issue(s)**		**76,877,065**	**76,290,821**	**79,160,041**	**6.33%**
BENDER SHIPBUILDING + REPAIR USGG XI		6.20	09/30/12	11,956,425	11,956,425	11,956,425	0.96%
TVA TRUST		0.00	11/01/25	25,000,000	4,927,200	5,206,750	0.42%
FEDERAL HOME LOAN MORTGAGE CORP		3.25	06/18/18	20,000,000	19,901,778	19,609,740	1.57%
FEDERAL HOME LOAN MORTGAGE CORP		0.00	06/21/32	100,000,000	13,621,311	14,187,000	1.13%
FEDERAL HOME LOAN BANKS		6.40	06/03/14	6,000,000	5,579,707	7,144,797	0.57%
FEDERAL HOME LOAN BANKS		7.00	08/26/19	7,000,000	6,960,452	8,646,631	0.69%
FEDERAL HOME LOAN BANKS		7.45	02/03/20	10,000,000	10,067,861	12,912,580	1.03%
FEDERAL HOME LOAN MORTGAGE CORP		8.25	06/01/26	7,000,000	7,322,801	9,671,340	0.77%
FEDERAL HOME LOAN MORTGAGE CORP		0.00	06/05/28	50,000,000	9,268,005	10,756,050	0.86%
FEDERAL HOME LOAN MORTGAGE CORP		0.00	09/14/29	100,000,000	16,955,503	18,288,000	1.46%
FEDERAL NATIONAL MORTGAGE ASSN		6.00	05/15/08	15,000,000	14,681,883	17,294,778	1.38%
FEDERAL NATIONAL MORTGAGE ASSN		7.25	01/15/10	15,000,000	14,950,347	18,550,554	1.48%
FEDERAL NATIONAL MORTGAGE ASSN		7.13	01/15/30	25,000,000	27,157,135	32,458,755	2.59%
GLOBAL INDUSTRIES LTD USGG XI		7.71	02/15/25	8,800,000	8,800,000	8,800,000	0.70%
OXY GROWERI USGG XI		8.13	09/16/06	692,000	692,000	692,000	0.06%
REINAUER MARITIME CO LLC USGG XI		6.50	06/30/28	20,600,000	20,600,000	20,600,000	1.65%
STUDENT LOAN MARKETING ASSN		0.00	05/15/14	50,000,000	17,139,161	24,030,300	1.92%
T T BARGE SERVICES USGG XI		6.45	12/16/12	1,936,100	1,936,100	1,936,100	0.15%
TUNISIA AID USGG		6.71	02/01/24	4,000,000	3,796,504	4,000,000	0.32%
U S ARMY HOSPITALITY FUND USGG		7.47	05/01/32	9,906,667	9,906,667	9,906,667	0.79%
UNITED STATES TREASURY BONDS		7.25	05/15/16	14,000,000	14,487,718	18,624,375	1.49%
UNITED STATES TREASURY BONDS		7.50	11/15/16	6,000,000	6,154,741	8,149,687	0.65%
UNITED STATES TREASURY BONDS		3.63	04/15/28	28,411,750	29,300,911	34,586,868	2.76%
VESSEL MGMT SVCS INC USGG XI		6.08	05/20/24	20,472,000	20,472,000	22,806,013	1.82%
Government Direct-Indirect		**24 Issue(s)**		**556,774,942**	**296,636,211**	**340,815,409**	**27.24%**
AMERICAN PRESIDENT COS LTD		7.13	11/15/03	6,000,000	5,998,355	5,820,000	0.47%
CANADIAN NATIONAL RY CO		6.80	07/15/18	4,000,000	3,979,424	4,554,077	0.36%
EASTERN ENERGY LTD		7.25	12/01/16	10,000,000	9,879,339	12,815,720	1.02%
EQUITABLE LIFE ASSUR SOC U S A		6.95	12/01/05	5,000,000	4,959,246	5,529,694	0.44%
GREAT LAKES POWER INC		9.00	08/01/04	10,000,000	9,994,911	10,682,333	0.85%
HOUSEHOLD FINANCE CORP		6.88	03/01/07	3,000,000	2,961,631	3,454,340	0.28%
HOUSEHOLD FINANCE CORP		6.50	11/15/08	5,000,000	4,834,131	5,792,618	0.46%
IBP FINANCIAL CO CANADA		7.45	06/01/07	3,000,000	2,999,188	3,255,000	0.26%
MACMILLAN BLOEDEL LTD		7.70	02/15/26	5,000,000	4,888,077	5,906,360	0.47%
PANAMERICAN BEVERAGES INC		7.25	07/01/09	7,000,000	6,983,240	7,840,000	0.63%
TRANSAMERICA FINANCIAL CORP		0.00	09/01/12	20,000,000	10,431,148	10,895,702	0.87%
TRANSCANADA PIPELINES LTD		8.50	03/20/23	5,000,000	5,235,224	5,232,567	0.42%
UNITED MEXICAN STATES		8.00	09/24/22	20,000,000	19,326,278	22,500,000	1.80%
Yankee Bonds		**13 Issue(s)**		**103,000,000**	**92,470,191**	**104,278,410**	**8.34%**
BUTTE SILVER BOW MONTANA TAX INDL		6.89	07/01/05	5,025,000	5,025,000	5,025,000	0.40%
MONTANA STATE TAXABLE RENEW (4 ISSUES)		7.35-7.40	8/1/09-12	735,000	732,974	735,000	0.06%
MONTANA STATE BOARD HOUSING		8.45	08/01/39	1,150,000	1,150,000	1,150,000	0.09%
MONTANA CRP (96 ISSUES)		6.00-8.00	11/15/03-15	6,976,862	6,976,862	6,976,862	0.56%
State/Local Government		**102 Issue(s)**		**13,886,862**	**13,884,836**	**13,886,862**	**1.11%**
SHORT TERM INVESTMENT POOL				36,113,982	36,113,982	36,113,982	2.89%
Cash Equivalents		**1 Issue(s)**		**36,113,982**	**36,113,982**	**36,113,982**	**2.89%**

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
TFBP Total	**297 Issue(s)**		**1,568,757,993**	**1,139,041,264**	**1,251,081,198**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Short Term Investment Pool, as of June 30, 2003 and 2002, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Short Term Investment Pool, as of June 30, 2003 and 2002, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

November 4, 2003

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STATE OF MONTANA BOARD OF INVESTMENTS
SHORT TERM INVESTMENT POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2003 AND 2002

		2003		2002
Assets				
Cash	$	252,434	$	0
Interest receivable		619,408		1,426,446
Security lending cash collateral (Notes 3 and 4)		0		0
Unrealized loss (Note 2)		15,180		0
Investments managed at fair value (amortized cost of $1,420,403,394 in 2003 and $1,501,813,452 in 2002)(Notes 2 and 4)		1,420,388,214		1,501,953,124
Total assets	$	1,421,275,236	$	1,503,379,570
Liabilities				
Security lending expense payable	$	0	$	0
Unrealized gain (Note 2)		0		139,672
Income due participants		252,441		1,002,463
Security lending obligations(Notes 3 and 4)		0		0
Total liabilities	$	252,441	$	1,142,135
Net asset value	$	1,421,022,795	$	1,502,237,435
Units Outstanding (Note 2)		1,421,022,795		1,502,237,435
Unit Value (Note 2)	$	1	$	1

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Net asset value, beginning of year	$	1,502,237,435	$	1,681,620,625
Value of units purchased by participants		6,003,654,371		5,652,461,058
Value of units sold by participants		(6,084,869,011)		(5,831,844,248)
Net asset value, end of year	$	1,421,022,795	$	1,502,237,435

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Investment income (Note 2)	$	21,605,295	$	47,498,749
Security lending income		209		850,240
Security lending expense		(187)		(761,481)
Administrative expenses		(322,224)		(321,480)
Income due participants, beginning of year		1,002,463		2,929,723
Income available for distribution		22,285,556		50,195,751
Distribution		22,033,115		49,193,288
Income due participants, end of year	$	252,441	$	1,002,463

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT TERM INVESTMENT POOL - NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Short Term Investment Pool (STIP) was created by the Board to allow qualifying funds, per sections 17-6-201, 202 and 204, MCA, to participate in a diversified pool. Although state agencies are legally required to invest in STIP, local governments may voluntarily participate in STIP.

The purpose of STIP is to obtain the highest possible return, yet maintain a highly liquid position whereby funds may be invested for relatively short periods, one day or more, depending upon the participant's anticipated use of the funds. The investments and the income from STIP are owned by the participants, as they purchase units, and are managed on their behalf by the Board.

Although STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, the Board has as policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable-rate (floating-rate) instruments. These securities are purchased to provide shareholders with a diversified portfolio earning a competitive total rate of return.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. Commercial paper issued at a discount, direct or by brokers, is backed by bank credit lines. Repurchase agreements (REPOs) represent an agreement between a seller and a buyer, usually of US government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The variable-rate securities float with LIBOR (London Interbank Offered Rate).

Investments held are reported at fair value, annually, based on market prices supplied to the Board by various pricing services. The difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The STIP investment portfolio consists of securities with a maximum maturity of 397 days or less with the exception of securities having rate reset dates. The portfolio is carried at amortized cost or book value.

Participant Units

The STIP unit value is fixed at $1 for both participant buys and sells. A purchased unit earns income on the purchase date and ceases to earn income on the day before the unit is sold. Participants may buy or sell fractional shares. For fiscal years 2003 and 2002, income was distributed on the first calendar day of each month, with the exception of the June distribution. Income for June 2003 was distributed on the last calendar day of the month. Participants may automatically reinvest their income in additional units.

During fiscal years 2003 and 2002, the Board did not provide or obtain any legally binding guarantees to support the value of the participant units.

Broker Receivable/Payable

STIP security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the STIP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Other

Administrative expenses incurred by the Board are charged daily to STIP based on the Board's expenses applicable to STIP.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, State Street lent, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2003 and 2002 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2003 and 2002. Moreover, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street.

During fiscal years 2003 and 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2003 and June 30, 2002, the Board had no credit risk exposure to borrowers.

As of June 30, 2003 and June 30, 2002, there were no securities on loan.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below and on the following page to give an indication of the level of risk assumed at June 30, 2003 and June 30, 2002. Category 1 includes investments that are insured or registered or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral	Not Categorized	Carrying Amount	Fair Value
Asset-Backed Securities	733,397,874	0	0	733,397,874	733,410,024
Repurchase Agreements	56,000,000	0	0	56,000,000	56,000,000
Variable-Rate (Floating-Rate)	631,005,520	0	0	631,005,520	630,978,190
Total Investment	$ 1,420,403,394	$ 0	$ 0	$ 1,420,403,394	$ 1,420,388,214
Securities Lending Collateral Investment Pool		$ 0	$ 0	$ 0	$ 0

Risk as of June 30, 2002

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral	Not Categorized	Carrying Amount	Fair Value
Commercial Paper	$ 9,994,408	$ 0	$ 0	$ 9,994,408	$ 9,994,400
Asset-Backed Securities	912,373,688	0	0	912,373,688	912,371,066
Government Securities	44,400,000	0	0	44,400,000	44,365,368
Repurchase Agreements	44,000,000	0	0	44,000,000	44,000,000
Variable-Rate (Floating-Rate)	491,045,356	0	0	491,045,356	491,222,290
Total Investment	$ 1,501,813,452	$ 0	$ 0	$ 1,501,813,452	$ 1,501,953,124
Securities Lending Collateral Investment Pool		$	0	$ 0	$ 0

STIP investments' credit risk is measured by investment grade ratings given individual securities. Board of Investment's policy requires that STIP investments have the highest rating in the short term category by one and/or any Nationally Recognized Statistical Rating Organizations (NRSRO). The six NRSRO's include Standard and Poors, Moody's, Duff and Phelps, Fitch, IBCA and Thompson's Bank Watch.

Asset-backed securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

While variable-rate securities have credit risk identical to similar fixed-rate securities, their market risk (income) is more sensitive to interest rate changes. However, their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

There are no legal risks that the Board is aware of regarding any STIP investments.

5. YEAR END PORTFOLIO

The June 30, 2003 STIP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Coupon	Maturity	Par	Amortized Cost	Fair Value	% Total
CONCORD MINUTEMEN	discount	07/01/03	50,000,000	50,000,000	49,998,500	3.52%
EAGLE I CBO LTD	discount	07/01/03	23,011,000	23,011,000	23,010,540	1.62%
ZCM MATCHED FUNDING CORP	discount	07/02/03	20,000,000	19,999,261	19,998,000	1.41%
ZCM MATCHED FUNDING CORP	discount	07/03/03	20,000,000	19,998,522	19,998,600	1.41%
ADVANTAGE ASSET SECURITIES CORP	discount	07/07/03	20,000,000	19,995,667	19,996,200	1.41%
NEPTUNE FUNDING CORP	discount	07/08/03	32,255,000	32,246,784	32,247,904	2.27%
RHINELAND FUNDING CAPITAL	discount	07/09/03	20,000,000	19,994,222	19,995,000	1.41%
GOTHAM FUNDING CORP	discount	07/10/03	20,000,000	19,993,450	19,994,400	1.41%
ALTAMIRA FUNDING LLC	discount	07/11/03	20,000,000	19,992,722	19,993,800	1.41%
EAGLE I CBO LTD	discount	07/14/03	22,467,000	22,456,292	22,457,564	1.58%
NEWBURY FUNDS	discount	07/16/03	20,000,000	19,989,083	19,990,600	1.41%
ALTAMIRA FUNDING LLC	discount	07/17/03	20,000,000	19,988,356	19,990,200	1.41%
FAYETTE FUNDING LTD	discount	07/18/03	13,757,000	13,749,529	13,749,709	0.96%
LOCKHART FUNDING LLC	discount	07/18/03	20,000,000	19,987,628	19,989,200	1.41%
NEWBURY FUNDS	discount	07/21/03	15,000,000	14,989,500	14,990,700	1.05%
HERTZ FLEET FUNDING LLC	discount	07/22/03	17,000,000	16,987,604	16,988,950	1.19%
BUNGE ASSET FUNDING	discount	07/23/03	20,000,000	19,984,967	19,986,400	1.41%
BUNGE ASSET FUNDING	discount	07/24/03	20,000,000	19,984,283	19,985,800	1.41%

Security Name	Coupon	Maturity	Par	Amortized Cost	Fair Value	% Total
BAVARIA TRR CORP	discount	07/25/03	17,000,000	16,985,834	16,987,250	1.19%
BRYANT PARK FUNDING LLC	discount	07/28/03	20,000,000	19,982,000	19,983,400	1.41%
EMINENT FUNDING I	discount	07/29/03	20,000,000	19,981,333	19,982,600	1.41%
SUNBELT FUNDING CORP	discount	07/30/03	20,000,000	19,981,472	19,982,200	1.41%
HERTZ FLEET FUNDING LLC	discount	07/31/03	32,240,000	32,210,715	32,210,339	2.26%
ATOMIUM FUNDING CORP	discount	08/01/03	24,588,000	24,566,615	24,564,641	1.72%
NEPTUNE FUNDING CORP	discount	08/04/03	20,000,000	19,980,922	19,979,200	1.41%
TRICON CAPITAL CORP	discount	08/05/03	23,549,000	23,526,105	23,523,803	1.66%
RHINELAND FUNDING CAPITAL	discount	08/06/03	28,446,000	28,416,701	28,414,425	2.00%
DNA FINANCE CORP	discount	08/07/03	20,000,000	19,978,417	19,977,400	1.41%
HUDSON AMERICAN REALTY LLC	discount	08/07/03	40,000,000	39,946,144	39,953,200	2.81%
BAVARIA TRR CORP	discount	08/08/03	20,000,000	19,978,678	19,976,800	1.41%
LOCKHART FUNDING LLC	discount	08/11/03	20,000,000	19,974,944	19,974,800	1.41%
AUTOBAHN FUNDING CO LLC	discount	08/13/03	17,480,000	17,456,824	17,457,101	1.23%
THREE CROWNS FUNDING	discount	08/22/03	17,108,000	17,082,300	17,080,798	1.20%
ASSET-BACKED COMMERCIAL PAPER			**733,901,000**	**733,397,874**	**733,410,024**	**51.64%**
STATE STREET REPO	0.950	07/01/03	56,000,000	56,000,000	56,000,000	3.94%
REPURCHASE AGREEMENT			**56,000,000**	**56,000,000**	**56,000,000**	**3.94%**
AMERICAN HONDA FINANCE CORP	1.256	07/11/03	25,000,000	25,000,000	25,002,000	1.76%
AMERICAN EXPRESS CENTURION BANK	1.180	07/15/03	50,000,000	50,000,000	50,001,000	3.52%
K2 USA LLC	1.084	07/21/03	50,000,000	50,000,000	49,999,000	3.52%
AMERICAN HONDA FINANCE CORP	1.270	08/04/03	25,000,000	25,000,000	25,006,250	1.76%
MERRILL LYNCH + CO INC	1.580	08/04/03	39,000,000	39,008,240	39,017,160	2.75%
MHESAC	1.820	01/15/04	7,000,000	7,000,000	6,994,680	0.49%
GOLDMAN SACHS GROUP INC	1.360	02/06/04	40,000,000	40,000,000	39,935,600	2.81%
LINKS FINANCE LLC	1.150	02/17/04	50,000,000	50,000,000	50,061,000	3.52%
TANGO FINANCE CORP	1.289	03/05/04	55,000,000	54,997,280	55,000,000	3.87%
RATHGAR CAPITAL US CORP	1.280	03/08/04	40,000,000	40,000,000	39,996,000	2.82%
STANFIELD VICTORIA FINANCE LTD	1.170	03/15/04	50,000,000	50,000,000	49,997,500	3.52%
WHISTLEJACKET CAPITAL LTD	1.160	03/15/04	50,000,000	50,000,000	49,994,000	3.52%
BELFORD US CAPITAL CO	1.090	03/26/04	50,000,000	50,000,000	49,983,500	3.52%
PARKLAND USA LLC	1.088	04/19/04	50,000,000	50,000,000	49,990,500	3.52%
FIVE FINANCE INC	1.290	04/26/04	50,000,000	50,000,000	50,000,000	3.52%
VARIABLE-RATE(FLOATING RATES)			**631,000,000**	**631,005,520**	**630,978,190**	**44.42%**
TOTAL STIP			**1,420,901,000**	**1,420,403,394**	**1,420,388,214**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana Domestic Equity/Montana Stock Pool, as of June 30, 2003 and 2002, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana Domestic Equity/Montana Stock Pool, as of June 30, 2003 and 2002, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

November 4, 2003

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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA DOMESTIC EQUITY/MONTANA STOCK POOL FINANCIAL STATEMENTS
STATEMENT OF NET ASSET VALUE JUNE 30, 2003 AND 2002

		MDEP (Note 1)		MTCP (Note 1)
Assets		**2003**		**2002**
Cash	$		$	0
Security lending cash collateral (Notes 3 and 4)		19,085,755		16,128,704
Broker receivable for securities sold but not settled (Note 2)		0		68,588
Dividend receivable		1,917,421		1,533,196
Interest receivable		10,291		31,743
Investments managed at fair value (carrying value of $2,474,861,073 in 2003 and$1,829,268,116 in 2002)(Notes 2 and 4)		2,577,470,669		1,883,054,092
Total assets	$	2,598,484,136	$	1,900,816,323
Liabilities				
Income due participants	$	2,041,555	$	1,478,632
Security lending expense payable		6,778		27,806
Administrative fee payable		18,034		0
Security lending obligations (Notes 3 and 4)		19,085,755		16,128,704
Total liabilities		21,152,122		17,635,142
Net asset value	$	2,577,332,014	$	1,883,181,181
Units Outstanding (Note2)		24,311,482		5,948,621
Unit Value (Note 2)	$	106	$	317

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Net asset value, beginning of year	$	1,883,181,181	$	2,334,062,490
Value of MTCP units purchased by participants (Note 2)		14,398,568		82,356,740
Value of MTCP units sold by participants (Note 2)		(26,880,630)		(3,952,586)
Transfer of BGI and DFA investments to MDEP (Notes 1 and 2)		740,000,000		0
Value of MDEP units purchased by participants (Note 2)		25,000,000		0
Changes in fair value of investments managed (Note 2)		(58,367,105)		(529,285,463)
Net asset value, end of year	$	2,577,332,014	$	1,883,181,181

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Investment income (Note 2)	$	29,807,948	$	28,439,057
Security lending income		382,440		592,676
Security lending expense		(308,191)		(488,155)
Administrative expenses (Note 2)		(984,146)		(1,030,112)
Income due participants, beginning of year		1,478,632		720,694
Income available for distribution		30,376,683		28,234,160
Distribution (Note 2)		28,335,128		26,755,528
Income due participants, end of year	$	2,041,555	$	1,478,632

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA DOMESTIC EQUITY/MONTANA STOCK POOL - NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Montana Common Stock Pool (MTCP) was created by the Board to allow retirement and endowment funds, per section 17-6-201, MCA, the opportunity to participate in the equity market via a diversified pool. MTCP was created as of July 1, 1980, by the transfer of all common stock owned by the Public Employees' Retirement System, Teachers' Retirement System, and other funds into MTCP.

In March 1996, the Board approved the Investment Policy Statement to reflect the name change from the Montana Common Stock Pool to the Montana Stock Pool. The Montana Stock Pool is referred to as "Montcomp" or MTCP. This policy statement provided for the investment in common or preferred stock. The Investment Policy Statement was revised and approved in September 1996 to allow the investment in securities convertible into common or preferred stocks. In June 2000, the Board revised and approved the Investment Policy Statement to allow the investment in equity derivatives.

The board established creation of the Montana Domestic Equity Pool (MDEP) in April 2003. Effective May 1, 2003, the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds transferred all the Barclays Global Investors (BGI) S&P 500 Equity Index Fund A and the Dimensional Fund Advisors (DFA) US Small Cap Trust investments totaling $740 million, at cost, from the All Other Funds portfolio to the new pool. The BGI investments were previously recorded in the All Other Funds financial statements for fiscal year 2002. The pension and endowment funds also exchanged their investment in the Montana Stock Pool (MTCP) for units in the new Montana Domestic Equity Pool (MDEP).

These financial statements present the Net Asset Value, Changes in Net Asset Value and Investment Income and Distribution of the Montana Domestic Equity Pool, as of June 30, 2003 and the fiscal year then ended, and the Net Asset Value, Changes in Net Asset Value and Investment Income and Distribution of the Montana Stock Pool as of June 30, 2002 and the fiscal year then ended.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

MDEP/MTCP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MDEP/MTCP portfolio may include common stock, equity index, preferred stock, convertible equity securities and equity derivatives. Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. Equity derivatives "derive" their value from other equity instruments such as futures and options.

In June 2000, the Board approved a staff recommendation to securitize MTCP cash by investing in an equity derivative, the State Street Stock Performance Index Futures Fund (SPIFF). Portfolio cash is swept daily into SPIFF maintaining 100% equity exposure through holdings of stock index futures.

The MDEP, as an internal investment pool, invested its excess cash, on creation, in the Board's Short Term Investment Pool, STIP, an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. In July 2003, the STIP account was closed and a SPIFF account was opened to securitize MDEP cash by investing in an equity derivative.

In January 2003, the Board approved a staff recommendation to hire Dimensional Fund Advisors, as an external manager, to invest in domestic small market capitalization (small cap) companies. Market capitalization refers to the value of a corporation as determined by the market price of its issued and outstanding common stock. US Small Cap companies are those companies whose market capitalization comprises the smallest 8 percent of the total market universe. The total market universe is defined as the aggregate capitalization of the NYSE, AMEX and NASDAQ firms.

Investments are presented in the statement of Net Asset Value at fair value. Equity investments, on valuation date, are stated at the closing price of the security's primary exchange. Carrying value, parenthetically disclosed, represents the equity security purchase price plus a fixed commission where applicable.

The increase in the fair and carrying values of the MDEP portfolio as of June 30, 2003 as compared to fair and carrying values of the MTCP portfolio as of June 30, 2002 is attributed, primarily, to the $740 million transfer, at cost, of the BGI and DFA investments to the MDEP on May 1, 2003.

Participant Units

The Public Employees' Retirement System and the Teachers' Retirement System transferred all stock owned into MTCP at the start-up date and were issued units according to the fair value of their contribution, retaining their original total cost basis. The initial unit value as of July 1, 1980, was $1,000. Unit values thereafter and until March 31, 2000 were calculated weekly and at the close of the last business day of the month, based on the fair value of MTCP equity holdings and other assets. Effective April 1, 2000, the unit values are calculated daily. Daily unit value calculations were discontinued as of January 1, 2003. Since January 2003, MTCP unit values are calculated weekly and at the close of the last business day of the month. Depending on stock market conditions and the investment officer's decision, MDEP participants may then buy or sell units on the first calendar day of each month.

On July 1, 1994, the initial unit value changed from $1,000 to $100. This change was required for the Board's new accounting system. On August 17, 2000, shareholders, on record, received one MTCP share for each MTCP share held as the result of a 2:1 split. The unit value on August 31, 2000, prior to the split, was $1,014 while the unit value, after the split, was $507.

On May 1, 2003, the pension funds transferred all the Barclays Global Investors (BGI) S&P 500 Equity Index Fund A and the Dimensional Fund Advisors (DFA) US Small Cap Trust investments, at cost, to the MDEP. On the same date, the pension and endowment funds transferred their MTCP investments, at cost, to the MDEP. The pension and endowment funds were issued units according to the fair value of each participant's portfolio. The initial MDEP unit value on May 1, 2003 was $100. On conversion date, MTCP participants exchanged approximately 5.8 million MTCP units, valued at $302 per unit, for 24.1 million MDEP units, issued at $100 per unit.

As reported in the Statement of Changes in Net Asset Value, the value of MTCP units purchased by participants decreased $68 million in fiscal year 2003 while the value of MTCP units sold increased by $23 million based on changes in the market. The $82 million in participant purchases in fiscal year 2002 reflect investment opportunities given the market conditions. The fiscal year 2003 and 2002 changes are the result of an asset allocation decision and do not reflect a change from the stated investment policy to increase retirement fund exposure to equity investments. MTCP participant purchases and sales from July 2002 to March 2003 were based on a MTCP per unit value ranging from $259 per unit to $308 per unit. In June 2003, the MDEP participants purchased units at $105 per unit to fund $25 million for the DFA US Small Cap Trust. The increase of $471 million in the Change in Fair Value of Investments Managed reflects the equity market appreciation since fiscal year 2002.

Broker Receivable/Payable

MDEP/MTCP security transactions are recorded as of trade date rather than settlement date. Because of this generally accepted practice, the MDEP/MTCP portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received.

Other

Investment income reported in the Statement of Investment Income and Distribution includes dividend accruals, tax reclaim accruals, SPIFF gain/losses and miscellaneous income. MDEP/MTCP dividends are recorded on the ex-dividend date.

The MDEP/MTCP Income Available for Distribution is distributed as of the first calendar day of each month.

Administrative expenses incurred by the Board are charged daily to MDEP/MTCP based on the Board's expenses applicable to MDEP/MTCP. For fiscal year 2003, these expenses include $966,446 for the Board and the custodial bank contract and $17,700 in accruals for external manager fees. The fiscal year 2002 administrative expenses of $1, 030,112 represent Board expense and custodial bank contract fees.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, State Street lent, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2003 and 2002 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2003 and 2002. Moreover, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street.

During fiscal years 2003 and 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2003 and June 30, 2002, the Board had no credit risk exposure to borrowers.

As of June 30, 2003, the carrying and fair values of the underlying securities on loan for the Montana Stock Pool were $19,578,118and $18,747,547 respectively. The collateral provided for the securities on loan totaled $19,085,755 in cash.

As of June 30, 2002, the carrying and fair values of the underlying securities on loan for the Montana Stock Pool were $20,924,469 and $15,748,477 respectively. The collateral provided for the securities on loan totaled $16,128,704 in cash.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized on the next page to give an indication of the level of risk assumed at June 30, 2003 and June 30, 2002. Category 1 includes investments that are insured or registered or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Common Stock Pool	$ 1,655,692,724	$ 0	$ 19,578,118	$ 1,675,270,842	$ 1,817,071,361
Equity Index Fund	710,000,000	0	0	710,000,000	661,781,844
DFA Small Cap Subtrust	55,000,000	0	0	55,000,000	62,981,234
SPIFF	34,575,711	0	0	34,575,711	35,621,710
STIP	14,520	0	0	14,520	14,520
Total Investment	$ 2,455,282,955	$ 0	$ 19,578,118	$ 2,474,861,073	$ 2,577,470,669
Securities Lending Collateral Investment Pool			$ 19,085,755	$ 19,085,755	$ 19,085,755

*** At June 30, 2003, the underlying securities with fair values of $18,747,547 were loaned for cash collateral under a security lending agreement with the state's agent.**

Risk as of June 30, 2002

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Common Stock Pool	$ 1,802,361,379	$ 0	$ 20,924,469	$ 1,823,285,848	$ 1,877,185,006
SPIFF	5,982,268	0	0	5,982,268	5,869,086
Total Investment	$ 1,808,343,647	$ 0	$ 20,924,469	$ 1,829,268,116	$ 1,883,054,092
Securities Lending Collateral Investment Pool			$ 16,128,704	$ 16,128,704	$ 16,128,704

*** At June 30, 2002, the underlying securities with fair values of $15,748,477 were loaned for cash collateral under a security lending agreement with the state's agent.**

5. OWENS-CORNING COMPLAINT

On October 11, 2002, the Board received a summons and complaint regarding the bankruptcy of Owens-Corning. The company seeks a determination that the dividend payments paid from October 1996 through July 2000 represent "fraudulent transfers under Chapter 11 Bankruptcy provisions and applicable state law, and are, therefore, voidable". The complaint states the Montana Board of Investments was the "recipient of dividends in the amount of $357,099 for the relevant period". The Board has prepared a response to the complaint.

6. YEAREND PORTFOLIO

The June 30, 2003 MDEP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Shares	Carrying Value	Fair Value	% of Total
PFIZER INC	2 ,107,260	81,610,871	71,962,929	2.79%
MICROSOFT CORP	2,780,000	106,343,751	71,195,800	2.76%
GENERAL ELECTRIC CO	2,272,300	45,881,708	65,169,564	2.53%
CITIGROUP INC	1,483,866	25,334,534	63,509,465	2.46%
EXXON MOBIL CORP	1,462,912	39,595,791	52,533,170	2.04%
WAL MART STORES INC	800,000	41,490,700	42,936,000	1.67%
JOHNSON + JOHNSON	822,000	15,464,327	42,497,400	1.65%
AMERICAN INTERNATIONAL GROUP INC	693,750	35,332,768	38,281,125	1.49%
VERIZON COMMUNICATIONS	953,308	28,159,436	37,608,001	1.46%
WELLS FARGO + CO	700,000	11,979,499	35,280,000	1.37%
MERCK + CO INC	539,000	12,452,641	32,636,450	1.27%
J P MORGAN CHASE + CO	903,900	31,341,979	30,895,302	1.20%
INTEL CORP	1,450,000	9,366,714	30,136,800	1.17%
ABBOTT LABS	640,000	5,975,860	28,006,400	1.09%
INTERNATIONAL BUSINESS MACHINES	330,000	11,585,065	27,225,000	1.06%
COCA COLA CO	565,000	29,003,390	26,221,650	1.02%
AMERICAN EXPRESS CO	605,000	9,945,966	25,295,050	0.98%
CHEVRONTEXACO CORP	344,350	21,736,657	24,862,070	0.96%
BANK NEW YORK INC	840,000	38,384,653	24,150,000	0.94%
CISCO SYSTEMS INC	1,405,000	17,000,582	23,308,950	0.90%
DELL COMPUTER CORP	710,000	25,926,917	22,691,600	0.88%
UNITED TECHNOLOGIES CORP	320,000	10,837,605	22,665,600	0.88%
HOME DEPOT INC	670,000	24,260,388	22,190,400	0.86%
VIACOM INC	500,000	20,803,600	21,830,000	0.85%
CATERPILLAR INC	360,000	17,188,238	20,037,600	0.78%
DISNEY WALT CO	1,013,000	29,779,676	20,006,750	0.78%
MORGAN STANLEY	450,000	22,188,987	19,237,500	0.75%
WYETH	420,000	23,634,910	19,131,000	0.74%
ORACLE CORP	1,586,000	22,676,062	19,063,720	0.74%
BEST BUY CO INC	430,000	15,534,420	18,885,600	0.73%
SBC COMMUNICATIONS INC	727,400	20,127,789	18,585,070	0.72%
AMGEN INC	270,000	13,319,963	18,084,600	0.70%
TEXAS INSTRUMENTS INC	1,000,000	42,638,196	17,600,000	0.68%
DU PONT E I DE NEMOURS + CO	420,000	16,355,048	17,488,800	0.68%
NASDAQ 100 TRACKING	580,670	18,146,769	17,391,067	0.67%
ALCOA INC	656,600	21,913,342	16,743,300	0.65%
OMNICOM GROUP	232,000	15,365,117	16,634,400	0.65%
BANK AMERICA CORP	210,000	14,803,700	16,596,300	0.64%
AFLAC INC	531,200	16,579,715	16,334,400	0.63%
COMCAST CORP NEW	535,000	13,235,748	16,146,300	0.63%
PROCTER + GAMBLE CO	180,000	15,090,608	16,052,400	0.62%
MELLON FINANCIAL CORP	575,000	25,921,505	15,956,250	0.62%
ALTRIA GROUP INC	350,000	12,931,925	15,904,000	0.62%
MARSH + MCLENNAN COS INC	306,400	12,478,831	15,647,848	0.61%
KIMBERLY CLARK CORP	297,200	15,491,102	15,496,008	0.60%
EMC CORP	1,480,000	24,351,015	15,495,600	0.60%
CARDINAL HEALTH INC	240,000	14,888,490	15,432,000	0.60%
AUTOMATIC DATA PROCESSING INC	441,300	12,879,834	14,942,418	0.58%
COSTCO WHOLESALE CORP NEW	407,000	14,420,906	14,896,200	0.58%
EMERSON ELECTRIC CO	290,000	10,404,177	14,819,000	0.57%
FLEETBOSTON FINANCIAL CORP	489,500	10,113,595	14,543,045	0.56%
BRISTOL MYERS SQUIBB CO	509,000	20,882,003	13,819,350	0.54%

Security Name	Shares	Carrying Value	Fair Value	% of Total
WEYERHAEUSER CO	247,200	14,085,568	13,348,800	0.52%
MBNA CORP	600,000	11,209,405	12,504,000	0.49%
FIRST DATA CORP	300,000	10,565,785	12,432,000	0.48%
TYCO INTERNATIONAL LTD	650,000	8,294,033	12,337,000	0.48%
SYSCO CORP	410,000	11,779,895	12,316,400	0.48%
3M CO	93,800	9,468,540	12,098,324	0.47%
HEWLETT PACKARD CO	540,000	10,896,552	11,502,000	0.45%
AMDOCS LTD	477,700	13,692,324	11,464,800	0.44%
LILLY ELI + CO	160,000	9,970,910	11,035,200	0.43%
ALLTEL CORP	225,100	13,865,946	10,854,322	0.42%
UNITED PARCEL SERVICE INC	170,000	10,415,524	10,829,000	0.42%
AMBAC FINANCIAL GROUP INC	163,200	8,486,207	10,812,000	0.42%
INGERSOLL RAND COMPANY LIMITED	225,000	9,067,468	10,647,000	0.41%
AOL TIME WARNER INC	652,500	23,791,010	10,498,725	0.41%
BANK ONE CORP	280,000	9,881,272	10,410,400	0.40%
CONOCOPHILLIPS	187,080	11,179,840	10,251,984	0.40%
NOKIA CORP	619,800	3,390,239	10,183,314	0.40%
FRANKLIN RESOURCES INC	260,000	9,912,609	10,158,200	0.39%
FIFTH THIRD BANCORP	170,000	9,766,738	9,747,800	0.38%
SCHLUMBERGER LTD	200,000	11,070,456	9,514,000	0.37%
HONEYWELL INTERNATIONAL INC	350,000	11,114,280	9,397,500	0.36%
MARRIOTT INTERNATIONAL INC	236,600	9,430,734	9,090,172	0.35%
WATERS CORP	310,000	10,565,259	9,030,300	0.35%
WALGREEN CO	300,000	8,915,910	9,030,000	0.35%
ROYAL DUTCH PETROLEUM CO	188,800	10,078,555	8,801,856	0.34%
FEDERAL NATIONAL MTG ASSN	125,000	7,394,025	8,430,000	0.33%
CVS CORP	300,000	11,684,667	8,409,000	0.33%
UNION PACIFIC CORP	143,800	6,340,672	8,343,276	0.32%
WACHOVIA CORP	200,000	7,308,200	7,992,000	0.31%
TARGET CORP	200,000	4,234,527	7,568,000	0.29%
REEBOK INTERNATIONAL LTD	224,600	5,485,812	7,553,298	0.29%
GOLDMAN SACHS GROUP INC	90,000	7,774,885	7,537,500	0.29%
BOSTON SCIENTIFIC CORP	120,000	7,316,496	7,332,000	0.28%
MGIC INVESTMENT CORP WIS	155,000	9,726,764	7,229,200	0.28%
CHUBB CORP	120,000	6,591,192	7,200,000	0.28%
MEDTRONIC INC	150,000	6,582,300	7,195,500	0.28%
INTERNATIONAL PAPER CO	200,000	7,376,940	7,146,000	0.28%
CONAGRA INC	300,000	7,290,615	7,080,000	0.27%
HARLEY DAVIDSON INC	175,000	8,021,470	6,975,500	0.27%
DARDEN RESTAURANTS INC	366,000	6,730,081	6,946,680	0.27%
COMPUTER SCIENCES CORP	166,600	8,323,714	6,350,792	0.25%
GUIDANT CORP	142,500	5,021,772	6,325,575	0.25%
BP PLC	150,000	5,902,290	6,303,000	0.24%
ANADARKO PETE CORP	140,000	6,296,780	6,225,800	0.24%
KOHLS CORP	120,000	6,314,400	6,165,600	0.24%
BIOMET INC	198,900	5,516,600	5,700,474	0.22%
AUTOZONE INC	75,000	5,252,783	5,697,750	0.22%
JOHN HANCOCK FINANCIAL SERVICES	181,400	7,105,120	5,574,422	0.22%
FORTUNE BRANDS INC	100,000	4,341,233	5,220,000	0.20%
CLOROX CO	120,200	5,125,881	5,126,530	0.20%
JOHNSON CONTROLS INC	55,000	4,420,422	4,708,000	0.18%
BAXTER INTERNATIONAL INC	180,000	4,976,774	4,680,000	0.18%
ELECTRONIC DATA SYSTEM CORP	206,700	4,779,556	4,433,715	0.17%
KNIGHT RIDDER INC	50,000	3,456,564	3,446,500	0.13%
XILINX INC	127,100	2,744,852	3,216,901	0.12%
SCHERING PLOUGH CORP	140,000	1,781,326	2,604,000	0.10%

Security Name	Shares	Carrying Value	Fair Value	% of Total
COMMON STOCK POOL TOTAL	**1,924,496**	**1,675,270,842**	**1,817,071,361**	**70.50%**
S & P 500 INDEX FUND A	2,583,931	710,000,000	661,781,844	25.68%
EQUITY INDEX FUND	**2,583,931**	**710,000,000**	**661,781,844**	**25.68%**
DIMENSIONAL FUND ADVISORS INC	103,702	55,000,000	62,981,234	2.44%
DFA SMALL CAP SUBTRUST	**103,702**	**55,000,000**	**62,981,234**	**2.44%**
STATE STREET SPIFF	287,927	34,575,711	35,621,710	1.38%
TOTAL EQUITY FUTURES	**287,927**	**34,575,711**	**35,621,710**	**1.38%**
SHORT TERM INVESTMENT POOL (STIP)	14,520	14,520	14,520	0.00%
CASH EQUIVALENTS	**14,520**	**14,520**	**14,520**	**0.00%**
MDEP TOTAL	**54,914,575**	**2,474,861,073**	**2,577,470,669**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana International Equity Pool, as of June 30, 2003 and 2002, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana International Equity Pool, as of June 30, 2003 and 2002, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

November 4, 2003

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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA INTERNATIONAL EQUITY POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2003 AND 2002

		2003		2002
Assets				
Cash	$	868,216	$	423,676
Security lending cash collateral (Notes 3 and 4)		78,496,331		67,179,838
Broker receivable for securities sold but not settled (Note 2)		953,991		2,109,271
Dividend and interest receivable		1,018,759		1,286,973
Investments managed at fair value (cost of $489,383,398 in 2003 and $442,872,610 in 2002) (Notes 2 and 4)		470,729,781		429,605,702
Total assets	$	552,067,078	$	500,605,460
Liabilities				
Income due participants	$	771,639	$	864,830
Broker payable for securities purchased but not settled (Note 2)		25,723,955		2,983,570
Security lending obligations (Note 3)		78,496,331		67,179,838
Security lending expense payable		52,149		79,443
Due to other funds		35,604		37,728
Unrealized foreign exchange market gain (loss)		(16,024)		(46,630)
Administrative fee payable		335,584		356,125
Total liabilities		105,399,238		71,454,904
Net asset value	$	446,667,840	$	429,150,556
Units Outstanding (Note 2)		5,356,076		4,709,766
Unit Value (Note 2)	$	83.39	$	91.12

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Net asset value, beginning of year	$	429,150,556	$	389,819,983
Value of units purchased by participants (Note 2)		51,046,000		72,500,000
Value of units sold by participants		(53,957)		0
Changes in current value of investments managed		(33,474,759)		(33,169,427)
Net asset value, end of year	$	446,667,840	$	429,150,556

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Investment income (Note 2)	$	9,960,157	$	7,991,237
Security lending income		1,042,890		1,429,420
Security lending expense		(671,198)		(1,081,010)
Administrative expenses (Note 2)		(1,785,948)		(1,774,996)
Income due participants, beginning of year		864,830		694,026
Income available for distribution		9,410,731		7,258,677
Distribution (Note 2)		8,639,092		6,393,847
Income due participants, end of year	$	771,639	$	864,830

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA INTERNATIONAL EQUITY POOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 and 2002

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Montana International Equity Pool (MTIP) was created by the Board to allow qualifying funds, per section 17-6-201, MCA, the opportunity to participate in the international equity market via a diversified pool. MTIP, approved by the Board in June 1996, consists of one pool investing in one or more separate funds. Currently, MTIP has investments with an internally managed fund, BOI Internal International, and four externally managed funds, Pyrford International, Schroder Investment Management NA, SG Yamaichi Asset Management Co., formerly SG Pacific Asset Management Inc. and Barclays Global Investors. On January 3, 1997, the MTIP was funded by the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds.

In fiscal year 2003, the Board funded external managers, Pyrford International, $27 million, and Schroder Investment Management NA, $9 million, for a total active investment funding of $36 million. In May 2003, the Board funded the Barclays Global Investors (BGI) – MSCI Europe Index Fund with an initial $15 million investment.

In fiscal year 2002, the Board funded $15 million to BOI Internal International, $12.5 million to SG Yamaichi Asset Management Co., formerly SG Pacific Asset Management, Inc., $20 million to Pyrford International, and $25 million to Schroder Investment Management NA for a total funding of $72.5 million. In December 2002, SG Yamaichi Asset Management Co., formerly SG Pacific Asset Management Inc. changed its name to SG Yamaichi Asset Management Co.

Schroder Investment Management NA, and SG Yamaichi Asset Management Co., formerly SG Pacific Asset Management Inc., selected by the Board in October 1996, are authorized to invest in 11 Pacific Basin countries. These countries are Australia, China/Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan and Thailand.

As approved by the Board, the BOI Internal International fund may invest in 20 European, North and South American countries. These countries are listed as follows:

Argentina	**Chile**	**Ireland**	**Portugal**
Austria	**Denmark**	**Italy**	**Spain**
Belgium	**Finland**	**Mexico**	**Sweden**
Brazil	**Germany**	**Netherlands**	**Switzerland**
Canada	**Greece**	**Norway**	**United Kingdom**

In March 2003, the Board voted to liquidate all BOI Internal International holdings in France. On October 30, 2003, the Board voted to add France to list of approved countries for the BOI Internal International portfolio. In October 2001, the Board added Greece to the list of approved countries.

In August 1998, the Board selected Pyrford International, as an external investment manager for Europe. With the exception of the North and South American countries of Canada, Argentina, Brazil, Chile, and Mexico, Pyrford International, as approved by the Board, may invest in the European countries listed above including France.

In August 2003, the Board invested in the BGI All Country Pacific Index Strategy Fund with an initial funding of $15 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

MTIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MTIP portfolio includes equity investments in five funds - BOI Internal International, Pyrford International, Schroder Investment Management NA, SG Yamaichi Asset Management Co., formerly SG Pacific Asset Management Inc. and the BGI – MSCI Europe Index Fund. The five funds may invest in securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Security types may include ordinary common shares, preferred shares, convertible securities, American Depositary Receipts (ADR's), Global Depositary Receipts (GDR's), and other global securities, as appropriate.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Preferred stock pays a stipulated dividend and has a claim prior to that of common stock upon the earnings of a corporation. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. ADR's are receipts issued by a US depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. GDR's are receipts issued by non-US bank depositaries, which represent shares of a foreign stock or bonds.

Broker Receivable/Payable

MTIP security transactions are recorded as of the trade date rather than settlement date. Because of this generally accepted practice, the MTIP portfolio at June 30 may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received.

Valuation and Foreign Currency

Investments are presented in the statement of Net Asset Value at current US dollar value. The MTIP's fair value is derived from the Net Asset Value Per Share, as separately calculated, for the five funds - BOI Internal International, Pyrford International, Schroder Investment Management NA, SG Yamaichi Asset Management Co., formerly SG Pacific Asset Management Inc. and the BGI – MSCI Europe Index Fund. Each fund's Net Asset Value Per Share represents the per unit ownership of the fund's Net Assets. The Net Assets are the excess of the valued securities, cash, receivables and other assets over the fund's liabilities. Each fund's Net Assets are reported at current US dollar value after conversion, by the custodial bank, State Street Bank and Trust, from the foreign currency amounts.

State Street Bank, as custodian, is responsible for reporting the foreign currency transactions in both the local and base or functional (US dollar) currency. The five funds' cash, receivables, fair value of investment securities, other assets and liabilities are translated into US dollars at the Interactive Data Control (IDC) 11:00 a.m. Eastern Standard Time (EST) exchange rate as of the balance sheet date. Purchases and sales of investment securities, income and expenses are converted into US dollars using the Reuters noon EST exchange rate on the transaction date.

Currency exposures may be hedged, partially or fully, at the discretion of the manager to preserve the US dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the US dollar value of investments, is not authorized.

Fair values for the funds holding the publicly traded securities are determined by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank and their primary pricing service, IDC. Equity investments, traded on a national security exchange, are stated at the last reported sales price on valuation day, while equity securities traded in the over-the-counter market are stated at the last quoted bid price.

Participant Units

The Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds sold units in the Short Term Investment Pool at the start up date and were issued units in MTIP at an initial unit value of $100. Unit values

thereafter are calculated weekly and once a month at the close of the last business day of the month, based upon the fair value of the MTIP equity holdings, other assets and liabilities. Based on the investment officers' decision, participants may then buy or sell units on the first business day of each month. All participant buys or sells occur after distribution of accumulated income.

Investment Income and Distribution

Investment Income represents the monthly income distributions to the MTIP from the investment manager funds. The funds' income distributions include dividends accrued as of the ex-dividend date, interest, tax refunds and securities lending income, and related income currency gains/losses. Income currency gains/losses result from the difference between the amount of dividend, interest and foreign withholding taxes accrued for the fund in US dollars and the amount received or paid in equivalent US dollars.

Realized gains/losses from the sale of securities and related foreign exchange transactions are retained by each fund. Realized foreign exchange gains/losses arise from sales and maturities of portfolio securities, sales of foreign currencies, and currency gains/losses realized between the trade and settlement dates.

The fiscal year 2003 administrative expense of $1,785,948 represents $1,358,700 in quarterly fees accrued and paid to the external managers per their contracts, and $427,248 in monthly charges accrued and paid to the Board of Investments. The Board of Investments fee includes costs for the custodial bank contract. Administrative expenses incurred by the Board are charged daily to MTIP based on the Board's expenses applicable to MTIP.

The fiscal year 2002 administrative expense of $1,774,996 represents $1,322,540 in quarterly fees accrued and paid to the external managers per their contracts and $452,456 in monthly charges accrued and paid to the Board of Investments. The Board of Investments fee includes costs for the custodial bank contract

The MTIP Income Available for Distribution is distributed at least monthly to the retirement fund participants, net of external manager fees and administrative expenses, on the first business day of the following month.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 105 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, State Street lent, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar and foreign currency cash, US government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2003 and 2002 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2003 and 2002. Moreover, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street.

During fiscal years 2003 and 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2003 and June 30, 2002, the Board had no credit risk exposure to borrowers.

As of June 30, 2003, the carrying and fair values of the underlying securities on loan for MTIP were $75,267,314 and $74,813,847, respectively. The collateral provided for the securities on loan totaled $78,496,331 in cash collateral.

As of June 30, 2002, the carrying and fair values of the underlying securities on loan for MTIP were $63,227,006 and $65,695,692, respectively. The collateral provided for the securities on loan totaled $67,264,338 representing $67,179,838 in cash and $84,500 in securities collateral.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below to give an indication of the level of risk assumed at June 30, 2003 and June 30, 2002. Category 1 includes investments that are insured or registered, or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral.

Risk as of June 30, 2003

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
BGI MSCI Europe Index	$ 40,000,000	$ 0	$ 0	$ 40,000,000	$ 41,094,723
BOI Internal International	114,468,681	0	18,460,365	132,929,046	132,270,563
Pyford International	107,654,491	0	15,172,082	122,826,573	109,475,945
Schroder Investment Mgmt.	98,495,947	0	21,876,365	120,372,312	113,041,041
SG Yamaichi Asset Mgmt.	53,496,965	0	19,758,502	73,255,467	74,847,509
Total Investment	$ 414,116,084	$ 0	$ 75,267,314	$ 489,383,398	$ 470,729,781
Securities Lending Collateral Investment Pool			78,496,331	78,496,331	78,496,331

*** At June 30, 2003, the underlying securities with fair values of $74,813,847 were loaned for securities and cash collateral under a securities lending agreement with the state's agent.**

Risk as of June 30, 2002

Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
BOI Internal International	$ 116,629,720	$ 0	$ 28,136,551	$ 144,766,271	$ 143,562,849
Pyford International	81,720,536	0	15,782,786	97,503,322	89,775,488
Schroder Investment Mgmt.	106,946,185	67,619	9,008,869	116,022,673	112,533,365
SG Pacific Asset Mgmt.	74,349,163	0	10,231,181	84,580,344	83,734,000
Total Investment	$ 379,645,604	$ 67,619	$ 63,159,387	$ 442,872,610	$ 429,605,702
Securities Lending Collateral Investment Pool			67,179,838	67,179,838	67,179,838

*** At June 30, 2002, the underlying securities with fair values of $79,612 and $65,616,079, respectively, were loaned for securities and cash collateral under a securities lending agreement with the state's agent.**

The MTIP, through the above funds, has significant investments in 21 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the above funds in which MTIP is invested.

5. SUBSEQUENT EVENT

On July 1, 2003, the Board funded MTIP with a $35 million purchase in the State Street Stock Performance Index Futures Fund (SPIFF). SPIFF shares were subsequently sold to fund $25 million to the BGI–MSCI Europe Index Fund on July 3, 2003.

6. EXTERNAL MANAGERS

On October 30, 2003, the Board voted to retain Schroder Investment Management NA, hire Nomura Asset Management USA, Inc. and terminate SG Yamaichi Asset Management, Co. as active managers for the Board's Pacific Basin equity mandate. SG Yamaichi Asset Management, Co. ceased equity trading in the Pacific Basin on October 31, 2003. Upon transition, Nomura Asset Management USA, Inc. will begin equity trading in the Pacific Basin on December 1, 2003.

7. YEAR END PORTFOLIO

The combined investment portfolios for the five funds, as of June 30, 2003 are listed below by country. The percent is based on the total fair value of each security/country to the combined total portfolio fair value.

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
AUSTRALIA	AMCOR LIMITED	243,663	964,423	1,326,910	0.28%
AUSTRALIA	AMP LIMITED	148,000	522,449	493,303	0.10%
AUSTRALIA	AUSTRALIA/ NEW ZEALAND BANK GRP	109,380	1,166,272	1,365,149	0.29%
AUSTRALIA	BHP BILLITON LTD	846,745	4,401,144	4,906,392	1.04%
AUSTRALIA	BHP STEEL	200,816	373,182	500,999	0.11%
AUSTRALIA	BRAMBLES INDUSTRIES LTD	328,870	1,692,330	1,007,944	0.21%
AUSTRALIA	COCA COLA AMATIL	407,300	1,190,056	1,559,719	0.33%
AUSTRALIA	COMMONWEALTH BK OF AUSTRALIA	247,170	3,879,373	4,898,342	1.04%
AUSTRALIA	CSL LIMITED	75,700	985,510	606,680	0.13%
AUSTRALIA	FOSTERS GROUP	237,500	594,001	670,566	0.14%
AUSTRALIA	LEIGHTON HOLDINGS	50,000	291,591	335,325	0.07%
AUSTRALIA	LEND LEASE CORP	58,100	335,008	325,356	0.07%
AUSTRALIA	MACQUARIE INFRASTRUCTURE GRP	283,700	630,113	683,046	0.15%
AUSTRALIA	NATIONAL AUSTRALIA BANK	158,195	3,045,646	3,554,131	0.76%
AUSTRALIA	NEWS CORPORATION	463,300	3,701,493	3,479,975	0.74%
AUSTRALIA	PUBLISHING + BROADCASTING LTD	135,600	666,145	898,488	0.19%
AUSTRALIA	QANTAS AIRWAYS	499,700	1,054,461	1,095,855	0.23%
AUSTRALIA	RIO TINTO LIMITED	67,540	1,291,224	1,323,087	0.28%
AUSTRALIA	TABCORP HOLDINGS LTD	163,000	987,774	1,177,333	0.25%
AUSTRALIA	TELSTRA CORP	643,690	1,914,606	1,899,439	0.40%
AUSTRALIA	WESFARMERS	20,690	326,226	351,056	0.07%
AUSTRALIA	WESTFIELD HOLDINGS	81,090	642,793	793,992	0.17%
AUSTRALIA	WESTFIELD TRUST	94,780	192,381	219,296	0.05%
AUSTRALIA	WESTPAC BANKING CORP	287,200	2,192,748	3,129,923	0.66%
AUSTRALIA	WOODSIDE PETROLEUM	177,400	1,276,251	1,472,889	0.31%
AUSTRALIA	WOOLWORTHS LTD	99,311	706,768	833,868	0.18%
AUSTRALIA 26 ISSUE(S)		6,128,440	35,023,970	38,909,064	8.27%
BELGIUM	DEXIA	90,000	1,211,385	1,137,900	0.24%
BELGIUM	DEXIA	267,140	3,278,716	3,362,200	0.71%
BELGIUM	DEXIA STRIPS	129,140	0	1,483	0.00%
BELGIUM	FORTIS	30,000	554,936	520,891	0.11%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
BELGIUM	INTERBREW	45,000	815,026	999,925	0.21%
BELGIUM 5 ISSUE(S)		561,280	5,860,063	6,022,399	1.28%
CHINA/HONG KONG	ASIA SATELLITE TEL	131,437	176,931	216,585	0.05%
CHINA/HONG KONG	ASM PACIFIC TECH	216,000	524,876	631,534	0.13%
CHINA/HONG KONG	CHEUNG KONG HOLDINGS	100,000	644,248	601,425	0.13%
CHINA/HONG KONG	CHINA MOBILE	248,500	1,059,067	586,344	0.12%
CHINA/HONG KONG	CHINA OILFIELD SER	3,422,000	818,700	767,939	0.16%
CHINA/HONG KONG	CHINA PHARMACEUTICAL	1,300,000	322,778	437,604	0.09%
CHINA/HONG KONG	CLP HOLDINGS	345,300	1,381,297	1,509,939	0.32%
CHINA/HONG KONG	CNOOC LTD	664,000	880,888	979,207	0.21%
CHINA/HONG KONG	COSCO PACIFIC LTD	354,000	342,693	372,242	0.08%
CHINA/HONG KONG	DAH SING FINANCIAL	116,800	531,612	581,143	0.12%
CHINA/HONG KONG	DENWAY MOTORS LTD	2,290,000	640,911	1,035,149	0.22%
CHINA/HONG KONG	FONGS INDUSTRIES	296,000	165,308	165,116	0.04%
CHINA/HONG KONG	FOUNTAIN SET HLDGS	640,000	478,347	570,392	0.12%
CHINA/HONG KONG	HONG KONG EXCHANGE	374,000	490,239	537,153	0.11%
CHINA/HONG KONG	HUTCHISON WHAMPOA	267,400	2,216,349	1,628,784	0.35%
CHINA/HONG KONG	JOHNSON ELECTRIC HOLDINGS	899,500	992,778	1,113,107	0.24%
CHINA/HONG KONG	LI + FUNG	306,000	396,039	394,363	0.08%
CHINA/HONG KONG	SINGAMAS CONTAINER	1,200,000	364,165	511,660	0.11%
CHINA/HONG KONG	SUN HUNG KAI PROPS	332,000	2,383,753	1,677,423	0.36%
CHINA/HONG KONG	SWIRE PACIFIC	136,500	623,489	596,892	0.13%
CHINA/HONG KONG	TECHTRONIC INDS	324,000	304,143	544,283	0.12%
CHINA/HONG KONG	TEXWINCA HOLDINGS	834,000	627,251	663,080	0.14%
CHINA/HONG KONG	VEDAN INTL	1,600,000	209,268	201,073	0.04%
CHINA/HONG KONG	WHARF HOLDINGS	857,000	1,753,432	1,648,468	0.35%
CHINA/HONG KONG	ZHEJIANG EXPRESSWAY	2,604,000	932,692	1,076,909	0.23%
CHINA/HONG KONG 25 ISSUE(S)		19,858,437	19,261,254	19,047,814	4.05%
FINLAND	NOKIA CORP	162,000	2,169,260	2,661,660	0.57%
FINLAND	SAMPO OYJ	330,000	3,352,173	2,421,525	0.51%
FINLAND 2 ISSUE(S)		492,000	5,521,433	5,083,185	1.08%
FRANCE	AIR LIQUIDE(L)	3,312	413,349	491,010	0.10%
FRANCE	AVENTIS SA	50,700	2,612,980	2,789,384	0.59%
FRANCE	CNP ASSURANCES	44,800	1,687,040	1,893,215	0.40%
FRANCE	SODEXHO ALLIANCE	96,266	3,087,456	2,597,855	0.55%
FRANCE	TOTAL SA	25,100	3,462,234	3,793,182	0.81%
FRANCE	VALEO	85,600	3,331,591	2,968,621	0.63%
FRANCE	VEOLIA ENVIRONNEMENT	6,100	124,820	125,388	0.03%
FRANCE 7 ISSUE(S)		311,878	14,719,470	14,658,656	3.11%
GERMANY	ALTANA AG	13,000	620,005	820,174	0.17%
GERMANY	BASF AG	67,000	2,637,136	2,862,146	0.61%
GERMANY	BAYERISCHE MOTOREN WERKE AG	85,000	2,752,905	3,269,925	0.69%
GERMANY	DEUTSCHE TELEKOM AG	125,000	1,833,623	1,900,000	0.40%
GERMANY	E ON AG	32,750	1,637,375	1,683,730	0.36%
GERMANY	HENKEL KGAA	8,400	469,628	520,023	0.11%
GERMANY	LINDE AG	40,000	1,178,448	1,480,912	0.31%
GERMANY	SAP AKTIENGESELLSCHAFT	41,300	1,340,415	1,206,786	0.26%
GERMANY	SCHERING AG	84,100	3,793,893	4,112,214	0.87%
GERMANY	SIEMENS AG NPV (REGD)	40,000	2,026,301	1,962,300	0.42%
GERMANY 10 ISSUE(S)		536,550	18,289,728	19,818,211	4.21%
INDONESIA	BK MANDIRI	448,500	37,198	36,695	0.01%
INDONESIA	BK PAN ID	9,225,000	225,656	346,636	0.07%
INDONESIA	H M SAMPOERNA	980,000	317,348	492,970	0.10%
INDONESIA	TELEKOMUNIKASI IND	2,276,500	1,050,510	1,276,220	0.27%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
INDONESIA 4 ISSUE(S)		12,930,000	1,630,712	2,152,521	0.46%
IRELAND	ALLIED IRISH BANKS	253,968	3,234,359	3,794,289	0.81%
IRELAND	ANGLO IRISH BANK CP	130,000	1,111,805	1,141,243	0.24%
IRELAND	CRH	51,000	727,430	802,937	0.17%
IRELAND 3 ISSUE(S)		434,968	5,073,594	5,738,469	1.22%
ITALY	ENI	30,000	344,423	453,713	0.10%
ITALY	TIM SPA	260,000	1,174,381	1,280,869	0.27%
ITALY 2 ISSUE(S)		290,000	1,518,804	1,734,582	0.37%
JAPAN	AJINOMOTO CO INC	56,000	574,800	536,331	0.11%
JAPAN	ALPS ELECTRIC CO	29,000	355,696	371,451	0.08%
JAPAN	ARISAWA MANUFACTURING CO	14,500	260,042	347,783	0.07%
JAPAN	BANDAI CO	8,000	246,718	305,143	0.06%
JAPAN	BRIDGESTONE CORP	139,000	1,906,587	1,886,904	0.40%
JAPAN	CANON INC	24,000	723,185	1,101,312	0.23%
JAPAN	CHIBA BANK	87,000	296,137	308,657	0.07%
JAPAN	CSK CORPORATION	12,600	337,706	343,136	0.07%
JAPAN	DAI DAN CO	44,000	385,247	172,592	0.04%
JAPAN	DAIICHI PHARMACEUTICAL CO	52,200	765,091	679,915	0.14%
JAPAN	DAINIPPON INK+CHEM	220,000	437,423	445,222	0.09%
JAPAN	DAINIPPON SCREEN	83,000	283,893	406,446	0.09%
JAPAN	DON QUIJOTE	3,100	130,485	155,678	0.03%
JAPAN	DON QUIJOTE	3,100	128,606	159,034	0.03%
JAPAN	EAST JAPAN RAILWAY	710	3,543,112	3,157,527	0.67%
JAPAN	EISAI CO	30,800	824,621	633,571	0.13%
JAPAN	FUJI PHOTO FILM CO	61,000	1,985,261	1,762,815	0.37%
JAPAN	FUJI SEAL	2,800	75,571	85,813	0.02%
JAPAN	FUJITSU	151,000	2,065,731	618,713	0.13%
JAPAN	GLORY	7,000	153,825	155,070	0.03%
JAPAN	GUNZE LIMITED	65,000	247,088	244,680	0.05%
JAPAN	HITACHI	111,000	934,696	470,531	0.10%
JAPAN	HITACHI TRANSPORT SYSTEM	100,000	555,633	592,963	0.13%
JAPAN	HONDA MOTOR CO	36,700	1,334,896	1,390,673	0.30%
JAPAN	ITOCHU CORP	158,000	363,669	397,385	0.08%
JAPAN	JAPAN AIRPORT TERM	94,000	725,706	542,511	0.12%
JAPAN	JFE HOLDING INC	38,400	436,961	575,640	0.12%
JAPAN	JSAT CORP JPY50000	148	385,388	457,281	0.10%
JAPAN	KANEKA CORP	92,000	697,652	566,979	0.12%
JAPAN	KEIHIN CORP	5,800	55,410	49,511	0.01%
JAPAN	KONAMI CORP	11,700	260,510	209,494	0.04%
JAPAN	KONICA CORPORATION	49,000	497,260	557,843	0.12%
JAPAN	KUBOTA CORP	119,000	316,593	323,081	0.07%
JAPAN	KURARAY CO	70,000	562,876	459,380	0.10%
JAPAN	MABUCHI MOTOR CO	6,300	527,767	481,649	0.10%
JAPAN	MATSUSHITA ELECTRIC IND	242,000	3,656,918	2,396,319	0.51%
JAPAN	MILLEA HOLDINGS INC	255	2,317,957	1,949,532	0.41%
JAPAN	MITSUBISHI CORP	90,000	706,104	624,360	0.13%
JAPAN	MITSUBISHI ELEC CP	232,000	743,357	753,529	0.16%
JAPAN	MITSUBISHI ESTATE	63,000	570,010	426,558	0.09%
JAPAN	MITSUBISHI RAYON	122,000	379,365	325,130	0.07%
JAPAN	MITSUBISHI TOKYO FIN	171	1,963,454	773,292	0.16%
JAPAN	MITSUI + CO	500,000	2,911,096	2,506,767	0.53%
JAPAN	MITSUI CHEMICALS I	91,000	408,804	420,612	0.09%
JAPAN	MITSUI MINING + SM	164,000	374,164	484,864	0.10%
JAPAN	MITSUI TRUST HOLDINGS	173,000	384,697	380,362	0.08%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
JAPAN	MURATA MFG CO	51,000	2,602,546	2,004,747	0.43%
JAPAN	NEC CORP	119,000	437,368	594,628	0.13%
JAPAN	NGK SPARK PLUG CO	81,000	589,231	567,995	0.12%
JAPAN	NICHIREI CORP	98,000	317,137	341,970	0.07%
JAPAN	NIDEC CORPORATION	5,200	339,812	343,419	0.07%
JAPAN	NIPPON CABLE SYS	16,000	142,971	149,240	0.03%
JAPAN	NIPPON ELEC GLASS	19,000	197,529	200,641	0.04%
JAPAN	NIPPON MINING HOLDINGS	500	1,568	1,083	0.00%
JAPAN	NIPPON OIL CORP	187,000	789,573	811,385	0.17%
JAPAN	NIPPON TEL+TEL CP	583	4,812,853	2,286,846	0.49%
JAPAN	NIPPON TV NETWORK	6,750	1,297,009	804,435	0.17%
JAPAN	NIPPON UNIPAC HOLD	434	2,183,831	1,695,157	0.36%
JAPAN	NIPPON YUSEN KK	118,000	403,347	459,913	0.10%
JAPAN	NISHIMATSU CONSTRUCTION	103,000	306,113	349,981	0.07%
JAPAN	NISSAN MOTOR CO	50,900	464,246	486,639	0.10%
JAPAN	NOMURA HOLDINGS	185,000	2,576,379	2,348,032	0.50%
JAPAN	NSK	115,000	364,674	365,855	0.08%
JAPAN	NTT DOCOMO	753	1,976,511	1,630,481	0.35%
JAPAN	OJI PAPER CO	69,000	356,467	301,686	0.06%
JAPAN	OMRON CORP	94,000	1,424,337	1,585,259	0.34%
JAPAN	ORIX CORP	6,500	326,765	359,442	0.08%
JAPAN	OSAKA GAS CO	251,000	618,391	620,837	0.13%
JAPAN	PROMISE CO	31,500	1,902,247	1,177,889	0.25%
JAPAN	RICOH CO	172,000	2,988,880	2,810,443	0.60%
JAPAN	ROHM CO	19,700	2,797,256	2,147,599	0.46%
JAPAN	SANKEN ELECTRIC CO	55,000	411,979	487,820	0.10%
JAPAN	SANKYO CO	36,100	942,204	900,433	0.19%
JAPAN	SANYO CHEMICAL IND	24,000	165,932	148,107	0.03%
JAPAN	SEIKO EPSON CORP	2,600	57,186	77,302	0.02%
JAPAN	SHIMAMURA CO	5,800	348,197	320,250	0.07%
JAPAN	SHIN ETSU CHEM CO	21,100	735,885	720,466	0.15%
JAPAN	SHINKO ELEC INDS	16,800	324,296	327,395	0.07%
JAPAN	SHOWA SHELL SEKIYU	126,200	781,895	905,970	0.19%
JAPAN	SMC CORP	15,500	1,351,679	1,305,059	0.28%
JAPAN	SOMPO JAPAN INS	324,000	1,679,108	1,767,395	0.38%
JAPAN	SONY CORP	56,100	2,962,882	1,579,163	0.34%
JAPAN	SUMITOMO BAKELITE	153,000	857,677	638,376	0.14%
JAPAN	SUMITOMO ELEC INDS	212,000	1,763,264	1,548,399	0.33%
JAPAN	TAKASHIMAYA CO	98,000	491,706	487,245	0.10%
JAPAN	TAKEDA CHEM INDS	117,100	4,759,634	4,320,242	0.92%
JAPAN	TEIJIN	315,000	1,159,442	787,008	0.17%
JAPAN	TERUMO CORP	31,100	535,189	516,715	0.11%
JAPAN	TOHO CO	75,800	550,639	665,361	0.14%
JAPAN	TOKYO ELECTRON	5,200	200,534	246,413	0.05%
JAPAN	TOPPAN PRINTING CO	105,000	1,119,326	752,030	0.16%
JAPAN	TOSTEM INAX HOLDING	21,000	312,057	302,561	0.06%
JAPAN	TOYOTA MOTOR CORP	224,800	6,371,877	5,822,428	1.24%
JAPAN	USS	6,500	214,247	329,128	0.07%
JAPAN	YAMADA DENKI CO	15,300	321,252	337,664	0.07%
JAPAN	YAMAHA MOTOR CO	43,000	339,352	362,765	0.08%
JAPAN	YAMANOUCHI PHARM	75,900	2,573,342	1,978,488	0.42%
JAPAN	YAMATO TRANSPORT	56,000	606,832	619,813	0.13%
JAPAN	YOKOGAWA ELECTRIC	64,000	483,502	494,091	0.10%
JAPAN	YORK BENIMARU CO	19,000	438,723	396,377	0.08%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
JAPAN 100 ISSUE(S)		7,785,004	100,874,643	85,584,102	18.18%
KOREA	HYUNDAI DEPTPARTMENT	31,400	709,211	699,238	0.15%
KOREA	HYUNDAI MOTOR CO	39,930	903,613	1,056,332	0.22%
KOREA	K T + G CORPORATION	21,530	159,968	177,536	0.04%
KOREA	KANGWON LAND	5,950	640,415	662,495	0.14%
KOREA	KOOKMIN BANK	94,812	2,760,580	2,857,457	0.61%
KOREA	KT + G CORPORATION	11,090	150,011	182,899	0.04%
KOREA	KT CORP	45,900	1,186,365	904,689	0.19%
KOREA	LG ELECTRONICS INC	20,450	772,051	852,583	0.18%
KOREA	POSCO	5,908	552,674	613,304	0.13%
KOREA	POSCO	25,400	526,493	665,226	0.14%
KOREA	SAMSUNG ELECTRONIC	23,291	3,439,962	6,921,980	1.47%
KOREA	SAMSUNG FIRE + MAR	19,140	1,026,101	930,962	0.20%
KOREA	SHINSEGAE CO LTD	10,015	1,200,122	1,563,665	0.33%
KOREA 13 ISSUE(S)		354,816	14,027,566	18,088,365	3.84%
MALAYSIA	BRITISH AMERICAN TOBACCO	32,000	309,793	328,421	0.07%
MALAYSIA	GAMUDA BERHAD	520,000	712,617	841,579	0.18%
MALAYSIA	GENTING BERHAD	126,000	419,255	497,368	0.11%
MALAYSIA	MALAYAN BK BHD	550,300	1,266,114	1,245,416	0.26%
MALAYSIA	MAXIS COMMUN BHD	204,000	275,235	306,000	0.07%
MALAYSIA	OYL INDS BERHAD	50,400	214,081	341,526	0.07%
MALAYSIA	PERUSAHAAN OTOMOBL	100,000	211,641	213,158	0.05%
MALAYSIA	RESORTS WORLD BHD	416,500	853,603	1,074,132	0.23%
MALAYSIA 8 ISSUE(S)		1,999,200	4,262,337	4,847,600	1.03%
NETHERLANDS	ABN AMRO HOLDINGS NV	138,228	2,326,258	2,642,922	0.56%
NETHERLANDS	AEGON NV	484,723	6,598,470	4,853,826	1.03%
NETHERLANDS	AHOLD (KON)NV	245,197	4,490,177	2,035,765	0.43%
NETHERLANDS	IHC CALAND NV	11,603	555,704	592,398	0.13%
NETHERLANDS	ING GROEP NV	152,320	4,387,875	2,670,170	0.57%
NETHERLANDS	ING GROEP NV	60,000	1,006,660	1,042,472	0.22%
NETHERLANDS	KON KPN NV	120,000	766,265	850,238	0.18%
NETHERLANDS	KONNKLIJKE PHILIPS ELECTRS NV	150,000	4,260,106	2,866,500	0.61%
NETHERLANDS	REED ELSEVIER NV	42,000	501,401	495,329	0.11%
NETHERLANDS	ROYAL DUTCH PETROLEUM CO	101,000	5,327,405	4,708,620	1.00%
NETHERLANDS	ROYAL DUTCH PETROLEUM CO	99,700	4,846,938	4,627,704	0.98%
NETHERLANDS	STMICROELECTRONICS NV	52,000	1,915,094	1,081,080	0.23%
NETHERLANDS	TPG NV	117,500	2,114,256	2,040,158	0.43%
NETHERLANDS	UNILEVER NV	30,000	1,799,844	1,620,000	0.34%
NETHERLANDS	WOLTERS KLUWER	148,004	3,370,697	1,784,583	0.38%
NETHERLANDS 15 ISSUE(S)		1,952,275	44,267,149	33,911,765	7.20%
NEW ZEALAND	TELECOM CORP OF NEW ZEALAND	244,900	549,757	751,294	0.16%
NEW ZEALAND 1 ISSUE(S)		244,900	549,757	751,294	0.16%
SINGAPORE	CITY DEVELOPMENTS	144,000	351,144	363,066	0.08%
SINGAPORE	DBS GROUP HOLDINGS	210,786	1,587,995	1,232,877	0.26%
SINGAPORE	KEPPEL CORP	140,000	384,721	389,551	0.08%
SINGAPORE	MOBILEONE	1,005,000	759,773	764,736	0.16%
SINGAPORE	SEMBCORP LOGISTICS	480,000	543,060	512,436	0.11%
SINGAPORE	SINGAPORE AIRLINES	62,000	372,752	366,156	0.08%
SINGAPORE	SINGAPORE POST	381,000	131,464	147,121	0.03%
SINGAPORE	SINGAPORE PRESS HD	53,536	669,805	556,337	0.12%
SINGAPORE	UNISTEEL TECHNOLOGY LTD	667,500	254,063	278,599	0.06%
SINGAPORE	UNITED OVERSEAS BANK	314,000	2,095,310	2,211,016	0.47%
SINGAPORE	VENTURE CORP LTD	36,000	266,613	329,131	0.07%
SINGAPORE 11 ISSUE(S)		3,493,822	7,416,702	7,151,026	1.52%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
SPAIN	ABERTIS INFRAESTRUCTURAS SA	41,800	287,116	584,172	0.12%
SPAIN	BANCO BILBAO VIZCAYA ARGENTARI	261,500	2,983,644	2,743,135	0.58%
SPAIN	BBVA (BILB VIZ ARG)	429,300	4,545,620	4,510,826	0.96%
SPAIN	ENAGAS S A	49,300	416,362	421,772	0.09%
SPAIN	ENDESA S A	123,400	2,397,454	2,011,420	0.43%
SPAIN	ENDESA S A	279,900	3,666,802	4,686,348	1.00%
SPAIN	TELEFONICA MOVILES	45,000	318,014	361,213	0.08%
SPAIN	TELEFONICA S A	30,528	1,600,283	1,055,353	0.22%
SPAIN	TELEFONICA S A	486,409	5,552,579	5,647,118	1.20%
SPAIN 9 ISSUE(S)		1,747,137	21,767,874	22,021,357	4.68%
SWEDEN	ASSA ABLOY	65,000	673,682	629,298	0.13%
SWEDEN	ATLAS COPCO AB	60,000	1,280,210	1,517,811	0.32%
SWEDEN 2 ISSUE(S)		125,000	1,953,892	2,147,109	0.46%
SWITZERLAND	LONZA GROUP AG	23,980	1,429,195	1,097,604	0.23%
SWITZERLAND	NESTLE S A	115,500	4,156,525	5,971,350	1.27%
SWITZERLAND	NESTLE S A	20,330	4,286,298	4,194,925	0.89%
SWITZERLAND	NOVARTIS AG	132,900	4,315,082	5,290,749	1.12%
SWITZERLAND	NOVARTIS AG	136,000	5,148,989	5,381,566	1.14%
SWITZERLAND	ROCHE HOLDINGS AG	109,510	8,179,025	8,589,891	1.82%
SWITZERLAND	SWATCH GROUP	5,700	537,877	516,537	0.11%
SWITZERLAND	SWISS REINSURANCE	84,900	6,519,493	4,703,957	1.00%
SWITZERLAND	UBS AG	121,500	5,622,087	6,758,721	1.44%
SWITZERLAND	ZURICH FINANCIAL SERVICES GROUP	18,890	4,683,407	2,252,213	0.48%
SWITZERLAND 10 ISSUE(S)		769,210	44,877,976	44,757,513	9.51%
TAIWAN	ADVANCED SEMICONDUCTOR ENGR	180,000	538,200	527,400	0.11%
TAIWAN	BENQ CORP	89,632	556,143	610,663	0.13%
TAIWAN	CHINA STEEL	31,375	317,107	429,838	0.09%
TAIWAN	COMPAL ELECTRONIC	87,900	464,666	590,688	0.13%
TAIWAN	HON HAI PRECISION IND LTD	9,000	67,500	65,268	0.01%
TAIWAN	HON HAI PRECISION IND LTD	72,193	554,224	545,057	0.12%
TAIWAN	SYNNEX TECHNOLOGY INTL CORP	105,165	551,940	594,182	0.13%
TAIWAN	TAIWAN SEMICNDCTR MFG CO LTD	165,940	1,717,145	1,672,675	0.36%
TAIWAN	UNITED MICROELECTRONICS CORP	140,000	485,800	525,000	0.11%
TAIWAN 9 ISSUE(S)		881,205	5,252,725	5,560,771	1.18%
THAILAND	BANGKOK BANK	171,000	258,935	274,560	0.06%
THAILAND	KASIKORNBANK PCL	868,500	632,768	810,862	0.17%
THAILAND	LAND + HOUSES	1,833,000	322,855	414,213	0.09%
THAILAND	NATIONAL FINANCE PUBLIC	716,200	218,279	257,246	0.05%
THAILAND	PTT EXPLORATION + PRD	94,100	232,214	360,373	0.08%
THAILAND	SIAM CEMENT CO	40,000	158,017	159,848	0.03%
THAILAND	TELECOMASIA RIGHTS	163,895	0	0	0.00%
THAILAND 7 ISSUE(S)		3,886,695	1,823,068	2,277,101	0.48%
UNITED KINGDOM	BARCLAYS	660,360	5,005,238	4,903,615	1.04%
UNITED KINGDOM	BOOTS GROUP	61,000	645,005	652,774	0.14%
UNITED KINGDOM	BP PLC	162,384	7,341,018	6,823,376	1.45%
UNITED KINGDOM	BP PLC	462,000	3,505,220	3,203,854	0.68%
UNITED KINGDOM	BRITISH SKY BROADCAST	206,000	1,940,631	2,282,634	0.48%
UNITED KINGDOM	CADBURY SCHWEPPES	26,000	568,854	628,680	0.13%
UNITED KINGDOM	COMPASS GROUP	969,000	6,586,940	5,224,713	1.11%
UNITED KINGDOM	EXEL	145,000	1,570,891	1,488,269	0.32%
UNITED KINGDOM	GALLAHER GROUP	237,000	2,264,530	2,326,957	0.49%
UNITED KINGDOM	GLAXOSMITHKLINE PLC	117,000	2,795,524	2,361,214	0.50%
UNITED KINGDOM	GLAXOSMITHKLINE PLC	144,779	6,366,890	5,869,341	1.25%

Country	Security Name	Shares	Carrying Value	Fair Value	% of Total
UNITED KINGDOM	HSBC HOLDINGS PLC	103,200	1,210,289	1,224,136	0.26%
UNITED KINGDOM	HSBC HOLDINGS PLC	80,000	4,215,912	4,728,800	1.00%
UNITED KINGDOM	INTERCONTINENTAL H	177,966	1,202,619	1,262,783	0.27%
UNITED KINGDOM	KINGFISHER	300,000	1,291,476	1,372,511	0.29%
UNITED KINGDOM	LEGAL + GENERAL GP	2,589,240	4,646,042	3,589,010	0.76%
UNITED KINGDOM	PRUDENTIAL PLC	275,121	3,174,840	1,666,145	0.35%
UNITED KINGDOM	RECKITT BENCKISER PLC	50,000	794,811	917,483	0.19%
UNITED KINGDOM	RENTOKIL INITIAL	295,300	868,314	922,194	0.20%
UNITED KINGDOM	REUTERS GROUP	705,000	4,477,792	2,044,596	0.43%
UNITED KINGDOM	ROYAL BK SCOT GRP	150,000	3,333,564	4,207,879	0.89%
UNITED KINGDOM	SCOTTISH + SOUTHERN ENERGY	147,000	1,372,906	1,513,648	0.32%
UNITED KINGDOM	SHELL TRANS + TRADING PLC	56,000	2,069,827	2,231,600	0.47%
UNITED KINGDOM	SMITHS GROUP	300,000	3,113,697	3,480,164	0.74%
UNITED KINGDOM	SYNTHES STRATEC	3,010	1,644,199	2,162,142	0.46%
UNITED KINGDOM	TESCO	570,000	2,008,601	2,062,232	0.44%
UNITED KINGDOM	TIBBETT + BRITTEN	94,700	887,865	785,252	0.17%
UNITED KINGDOM	TOMKINS	389,837	1,431,913	1,460,266	0.31%
UNITED KINGDOM	UNILEVER	68,964	604,717	549,089	0.12%
UNITED KINGDOM	UNITED UTILITIES	218,000	2,191,395	2,118,824	0.45%
UNITED KINGDOM	VODAFONE GROUP	4,716,236	10,208,304	9,222,251	1.96%
UNITED KINGDOM	VODAFONE GROUP	10,000	173,500	196,500	0.04%
UNITED KINGDOM 32 ISSUE(S)		14,490,097	89,513,324	83,482,934	17.73%
UNITED STATES	BGI MSCI INDEX FUND EUROPE	6,119,194	40,000,000	41,094,723	8.73%
UNITED STATES 1 ISSUE(S)		6,119,194	40,000,000	41,094,723	8.73%
EQUITIES TOTAL 302 ISSUE(S)		85,392,108	483,486,041	464,840,561	98.75%
UNITED KINGDOM	BAE SYSTEMS, 7.45%, 11/29/2003	6,392	10,141	2,004	0.00%
FIXED INCOME TOTAL 1 ISSUE(S)		6,392	10,141	2,004	0.00%
UNITED STATES	STATE STREET BANK + TRUST CO	5,887,216	5,887,216	5,887,216	1.25%
CASH TOTAL 1 ISSUE(S)		5,887,216	5,887,216	5,887,216	1.25%
GRAND TOTAL 304 ISSUE(S)		91,285,716	489,383,398	470,729,781	100.00%

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the state of Montana Board of Investments, Montana Private Equity Pool, as of June 30, 2003 and 2002, and the related Statement of Changes in Net Asset Value and Statement of Investment Income and Distribution for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the state of Montana Board of Investments, Montana Private Equity Pool, as of June 30, 2003 and 2002, and its changes in net asset value and investment income and distribution for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

November 4, 2003

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STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA PRIVATE EQUITY POOL FINANCIAL STATEMENTS

STATEMENT OF NET ASSET VALUE JUNE 30, 2003 AND 2002

		2003		2002
Assets				
Cash	$	0	$	0
Dividend receivable		199,575		0
Investments managed at fair value (carrying value of $278,790,323 in 2003 and $184,109,131 in 2002)(Notes 2 and 4)		305,349,864		197,351,619
Total assets	$	305,549,439	$	197,351,619
Liabilities				
Income due participants	$	7,361,863	$	9,309,822
Total liabilities		7,361,863		9,309,822
Net asset value	$	298,187,576	$	188,041,797
Units Outstanding (Note 2)		2,915,343		1,930,959
Unit Value (Note 2)	$	102.28	$	97.38

STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Net asset value, beginning of year	$	188,041,797	$	0
Transfer of Private Equity investments to MPEP (Notes 1, 2 and 5)		0		159,799,310
Value of units purchased by participants (Notes 1, 2 and 5)		121,828,726		15,000,000
Value of units sold by participants		(22,752,654)		0
Changes in fair value of investments managed		11,069,707		13,242,487
Net asset value, end of year	$	298,187,576	$	188,041,797

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Investment income (Note 2)	$	4,924,275	$	9,359,200
Administrative expenses		(3,056,068)		(49,378)
Income due participants, beginning of year		9,309,822		0
Income available for distribution		11,178,029		9,309,822
Distribution (Note 2)		3,816,166		0
Income due participants, end of year	$	7,361,863	$	9,309,822

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA PRIVATE EQUITY POOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis. The Montana Private Equity Pool (MPEP) was established by the Board to allow retirement funds, per section 17-6-201, MCA, the opportunity to participate in the venture capital and leveraged buyout markets and other private equity investments via a diversified pool. The Board approved creation of the MPEP in April 2002. Effective May 1, 2002, the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds transferred all their venture capital and leveraged buyout investments, at cost, totaling $159,799,310, and cash of $15,000,000 to the new pool. These investments were previously recorded in the All Other Funds financial statements for fiscal year 2001.

Given the complexity and specialization of private equity investment, the Board contracts with six private equity managers to invest in venture capital, leveraged buyout and other private equity investments. The retained private equity managers include Adams Street Partners, formerly Brinson Partners, Kohlberg, Kravis, Roberts and Company, (KKR), Welsh Carson Anderson and Stowe, Madison Dearborn Partners, Lexington Partners and Oaktree Capital Management. According to Board policy, the external managers may not invest more than 20% of total private equity invested capital in non-US company partnerships unless the fund is a designated non-US fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Montana Private Equity Pool investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle". The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBO's) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company's current management team. Mezzanine investments are the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options. Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations. This debt is attractive to investors, not for repayment of interest and principal, which are unlikely to be paid, but for the claim placed on the firm's value by unpaid creditors. Without undue principal risk, distressed debt investment managers seek capital appreciation through the sale of restructured debt obligations or newly issued securities. Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely illiquid.

In creating the pool, the Board chose to securitize MPEP cash by investing in an equity derivative, the State Street Stock Performance Index Futures Fund (SPIFF). Portfolio cash is swept daily into SPIFF maintaining 100% equity exposure through holdings of stock index futures.

Investments are presented in the Statement of Net Asset Value at fair value. Because no recognized market exists for private equity investment, the MPEP investments, on valuation date, are stated at the fair value reported in the most recent external managers' valuation reports. Carrying value, parenthetically disclosed, represents the private equity security purchase price.

Broker Receivable/Payable

MPEP security transactions are recorded as of trade date rather than settlement date. Because of this generally accepted practice, the MPEP portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received.

Participant Units

The pension funds transferred all their venture capital and leveraged buyout investments, at cost, into the MPEP at the start-up date and were issued units according to the fair value of each participant's portfolio and cash contribution. The initial unit value as of May 1, 2002 was $100. Although unit values are calculated at month end, the pool portfolio will be priced at least quarterly at the fair value reported in the external managers' valuation reports. Given the quarterly portfolio valuations, pool participant transactions will most likely occur on a quarterly basis. Based on the investment officer's decision, participants may buy, reinvest or sell units on the first business day of each month. All participant buys, reinvestments or sells occur after distribution of accumulated income.

Investment Income and Distribution

Investment Income reported in the Statement of Investment Income and Distribution includes cash dividends, interest, realized gains and losses, and miscellaneous income received from July 1, 2002 to June 30, 2003 for fiscal year 2003 and income received from May 1 through June 30, 2002 for fiscal year 2002. MPEP dividends are recorded on the ex-dividend date.

The MPEP Income Available for Distribution is distributed or reinvested, on behalf of the nine retirement fund participants, at least quarterly or as determined by the Investment Officer. Any cash distributions or reinvestments will occur on the first business day of the following month. The Income Available for Distribution is net of MPEP external manager fees and administrative expenses.

The fiscal year 2003 administrative expense of $3,056,068 represents fees paid to the external managers of $2,816,202 per their contracts and $239,866 paid to the Board of Investments. The Board of Investments fee includes costs for the custodial bank contract. Administrative expenses incurred by the Board are charged daily to MPEP based on the Board's expenses applicable to MPEP.

The fiscal year 2002 administrative expense of $49,378 represents fees paid to the external managers of $15,384 per their contracts and $33,994 paid to the Board of Investments for May and June 2002. The Board of Investments fee includes costs for the custodial bank contract. Administrative expenses incurred by the Board are charged daily to MPEP based on the Board's expenses applicable to MPEP.

Security Lending

Because there is no active security lending market for this asset class, MPEP does not participate in security lending.

3. COMMITMENTS

Private equity investments, typically, represent a seven to ten year commitment characterized by capital calls occurring during the first five years with distributions to the investor over the remaining term of the investment. The original and remaining commitments and their respective carrying and fair values, as of June 30, 2003, are listed on the next page.

Commitments as of June 30, 2003

Security Investment	Original Commitment Date	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
Separate Account Partnerships	Jan 1988/Apr 1990	$ 14,000,000	$ 438,015	$ 2,758,047	$ 1,589,724
Venture Partnership Acquisition Fund II	April 1990	4,000,000	0	222,480	152,797
Brinson Venture Capital Fund III	March 1992	10,000,000	0	7,716,521	4,648,985
Brinson Venture Capital Fund IV	May 1999	15,000,000	1,191,667	13,508,333	7,458,694
Brinson Non-US Partnership Trust	January 1999	10,000,000	6,353,313	3,451,684	3,436,403
Brinson Partnership Trust 1996-2001	March 1996	105,000,000	58,385,803	42,128,356	34,305,668
Adams Street Partnership Trust 2002	August 2001	40,000,000	36,438,000	3,562,000	3,440,837
Adams Street Partnership US Fund 2003	January 2003	20,000,000	20,000,000	600,000	600,000
Adams Street Partners Fund V	August 2001	40,000,000	40,000,000	0	0
KKR 1986, 1987 Fund	August 1987	25,300,000	0	16,140,016	10,881,550
KKR 1993 Fund	December 1990	25,000,000	0	4,617,565	5,153,789
KKR 1996 Fund	July 1996	100,000,000	0	66,575,256	78,196,100
KKR European Fund	August 1999	25,000,000	14,099,346	10,900,654	8,846,513
Lexington Capital Partners V	May 2001	50,000,000	40,896,299	7,734,562	9,241,177
Madison Dearborn Partners IV	January 2001	22,509,475	19,231,452	1,873,480	1,223,077
Madison Dearborn Global IV	September 2002	2,490,525	0	2,490,525	2,669,113
Oaktree Capital IVB	September 2002	75,000,000	15,000,000	59,184,066	97,022,629
Welsh Carson Anderson & Stowe IX	September 2000	25,000,000	11,500,000	10,538,031	11,443,301
Total Private Equity Commitments		$ 608,300,000	$ 263,533,895	$ 254,001,576	$ 280,310,357

4. INVESTMENT RISK

Private equity investments are recognized as investments with a higher degree of risk with a higher return potential than traditional equity investments. Portfolio diversification of risk is to be achieved through multiple partnership relationships and investments diversified by time, financing stage, industry sector, investment size and geographical region. Private equity investments typically have a low correlation relative to other investment asset classes and should contribute to the reduction of portfolio risk and the enhancement of expected returns on a total investment portfolio basis.

5. RESTATEMENT

On the Statement of Changes in Net Asset Value for the fiscal year ended June 30, 2002, the Value of Units Purchased by Participants has been restated as $15,000,000 from $174,799,310 to reflect the transfer of $159,799,310 of the Private Equity venture capital and leveraged buyout investments to the Montana Private Equity Pool (MPEP).

6. NOTICE OF LIABILITY

The Montana Board of Investments is a limited partner in the private equity partnership of O'Donnell & Masur L.P. O'Donnell&Masur L.P. invested in Gardiner Communications, Inc. All partners of O'Donnell & Masur L.P. received a Notice of Liability from the Internal Revenue Service claiming unpaid federal corporate taxes for Gardiner Communications, Inc. As a recipient of the distributions on the sale and dissolution of Gardiner Communications, Inc., the Board faces potential liability. O'Donnell&Masur L.P. has retained legal counsel to represent all partners receiving a Notice of Liability. On September 5, 2003, legal counsel filed a petition on the Montana Board of Investment's behalf in U.S. Tax Court to perfect the Board's right to contest this matter.

7. YEAR END PORTFOLIO

The June 30, 2003 MPEP portfolio is listed below. The security type percentage is based on the fair value ratio of the specific security investment type to the total portfolio.

Security Name	Shares	Carrying Value	Fair Value	% of Total
ALTA SUBORDINATED DEBT PARTNERS III	139,989	139,989	146,632	0.05%
AUSTIN VENTURES III	249,043	249,043	455,553	0.15%
CAPITAL PARTNERS HOLDINGS II A	44,815	44,815	327,721	0.11%
GATEWAY VENTURE PARTNERS III	284,596	284,596	50,669	0.02%
INTERWEST PARTNERS IV	275,177	275,177	8,007	0.00%
MATRIX PARTNERS III L P	68,064	68,064	16,174	0.01%
NEW ENTERPRISE ASSOCIATES V LP	253,338	253,338	57,955	0.02%
NORO MOSELEY PARTNERS II L P	174,476	174,476	144,512	0.05%
O DONNELL + MASUR L P	352,319	352,319	202,980	0.07%
SOUTH ATLANTIC PARTNERS II L P	72,202	72,202	7,706	0.00%
SPROUT CAPITAL VI	275,956	275,956	35,980	0.01%
SUMMIT VENTURE II	128,881	128,881	3,429	0.00%
WCAS CAPITAL PARTNERS II	285,716	285,716	132,034	0.04%
WILLIAM BLAIR PARTNERS III LP	153,476	153,476	372	0.00%
SEPARATE ACCOUNT PARTNERSHIPS	**2,758,047**	**2,758,047**	**1,589,724**	**0.52%**
VENTURE PARTNERSHIP ACQUISTION II	222,480	222,480	152,797	0.05%
VENTURE PARTNERSHIP ACQUISITION	**222,480**	**222,480**	**152,797**	**0.05%**
BRINSON VENTURE CAPITAL III SECONDARY	1,333,805	1,333,805	910,383	0.30%
BRINSON VENTURE PARTNERS III SECONDARY	2,823,405	2,823,405	1,414,314	0.46%
BRINSON VENTURE CAPITAL FUND III	1,166,670	1,166,670	910,383	0.30%
BRINSON VENTURE PARTNER FUND III	2,392,642	2,392,642	1,413,905	0.46%
INSTITUTIONAL VENTURE CAPITAL FUND III	**7,716,521**	**7,716,521**	**4,648,985**	**1.52%**
BRINSON VENTURE CAPITAL FUND IV	13,508,333	13,508,333	7,458,694	2.44%
BRINSON VENTURE CAPITAL FUND IV	**13,508,333**	**13,508,333**	**7,458,694**	**2.44%**
BRINSON NON US PARTNERSHIP FUND	3,451,684	3,451,684	3,436,403	1.13%
BRINSON PARTNERSHIP FUND TRUST	42,128,356	42,128,356	34,305,668	11.23%
BRINSON PARTNERSHIP TRUST	**45,580,040**	**45,580,040**	**37,742,071**	**12.36%**
ADAMS STREET NON US PARTNERSHIP FUND	570,000	570,000	557,933	0.18%
ADAMS STREET PARTNERSHIP FUND	3,592,000	3,592,000	3,482,904	1.14%
ADAMS STREET PARTNERS TRUST	**4,162,000**	**4,162,000**	**4,040,837**	**1.32%**
ADAMS STREET TOTAL	**73,947,421**	**73,947,421**	**55,633,108**	**18.22%**
KKR 1986, 1987	16,140,016	16,140,016	10,881,550	3.56%
KKR 1993	4,617,565	4,617,565	5,153,789	1.69%
KKR 1996	66,575,256	66,575,256	78,196,100	25.61%
KKR EUROPEAN FUND	10,900,654	10,900,654	8,846,513	2.90%
KKR TOTAL	**98,233,491**	**98,233,491**	**103,077,952**	**33.76%**
LEXINGTON CAPITAL PARTNERSHIP V LP	7,734,562	7,734,562	9,241,177	3.03%
LEXINGTON CAPITAL TOTAL	**7,734,562**	**7,734,562**	**9,241,177**	**3.03%**
MADISON DEARBORN CAPITAL PARTNERSHIP IV	1,873,480	1,873,480	1,223,077	0.40%
MDP IV GLOBAL INVESTMENTS LP	2,490,525	2,490,525	2,669,113	0.87%
MADISON DEARBORN TOTAL	**4,364,005**	**4,364,005**	**3,892,190**	**1.27%**
OAKTREE CAPITAL OPPORTUNITIES FUND IVB LP	59,184,066	59,184,066	97,022,629	31.77%
OAKTREE CAPITAL TOTAL	**59,184,066**	**59,184,066**	**97,022,629**	**31.77%**
WELSH CARSON ANDERSON STOWE IX	10,538,031	10,538,031	11,443,301	3.75%

Security Name	Shares	Carrying Value	Fair Value	% of Total
WELSH CARSON ANDERSON STOWE TOTAL	**10,538,031**	**10,538,031**	**11,443,301**	**3.75%**
TOTAL PRIVATE EQUITIES	**254,001,576**	**254,001,576**	**280,310,357**	**91.80%**
STATE STREET SPIFF	202,392	24,788,747	25,039,507	8.20%
TOTAL EQUITY FUTURES	**202,392**	**24,788,747**	**25,039,507**	**8.20%**
MPEP TOTAL	**254,203,968**	**278,790,323**	**305,349,864**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Investments Managed for the state of Montana Board of Investments, All Other Funds, as of June 30, 2003 and 2002, and the related Statement of Net Investment Income and Statement of Changes in Net Investments Managed for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net investments managed by the Montana Board of Investments, All Other Funds, as of June 30, 2003 and 2002, and its net investment income and changes in its net investments managed for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

November 4, 2003

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STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS FINANCIAL STATEMENTS

STATEMENT OF NET INVESTMENTS MANAGED, JUNE 30, 2003 AND 2002

	2003	2002
Assets		
Investments managed at fair value (amortized cost of $1,360,107,546 in 2003 and $1,821,584,803 in 2002) (Notes 2 and 11)	$ 1,403,338,502	$ 1,760,474,593
Security lending cash collateral (Notes 3 and 6)	56,643,400	109,960,231
Interest receivable	12,921,901	14,386,158
Broker receivable for securities sold but not settled (Note 2)	1,276,972	187,961
Total assets	$ 1,474,180,775	$ 1,885,008,943
Liabilities		
Unrealized gain (loss)	$ 43,230,956	$ (61,110,210)
Security lending obligations	56,643,400	109,960,231
Security lending expense payable	66,939	169,433
Broker payable for securities purchased but not settled (Note 2)	1,592,849	25,000,000
Accounts payable	9,430	11,098
Total liabilities	$ 101,543,574	$ 74,030,552
Net investments managed	$ 1,372,637,201	$ 1,810,978,391

STATEMENT OF NET INVESTMENT INCOME
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Income		
Investment income (Note 2)	$ 77,235,644	$ 84,377,228
Realized gain on sales (Note 2)	33,141,817	35,239,199
Amortization/accretion	330,020	566,184
Security lending income	1,568,875	3,388,755
Total income	$ 112,276,356	$ 123,571,366
Expenses		
Administrative expenses	1,287,070	4,841,455
Security lending expense	1,379,262	2,985,977
Total expenses	$ 2,666,332	$ 7,827,432
Net investment income	$ 109,610,024	$ 115,743,934

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN NET INVESTMENTS MANAGED
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
Total net investments managed, beginning of year	$ 1,810,978,391	$ 1,674,511,341
Net investment income	109,610,024	115,743,934
Income remitted to agencies	(108,145,767)	(115,437,360)
Increase (decrease) in interest receivable	(1,464,257)	(306,574)
Increase (decrease) in broker receivable (Note 2)	1,089,011	(652,935)
Increase (decrease) in security lending cash collateral (Notes 3 and 6)	(53,316,831)	(6,366,788)
Investments purchased	1,322,395,416	1,398,613,388
Transfer of Private Equity investments to MPEP (Notes 2 and 10)	0	(159,799,310)
Transfer of BGI and DFA investments to MDEP (Note 2)	(740,000,000)	0
Investments sold, matured and called (Note 10)	(1,044,202,693)	(1,077,446,586)
Increase (decrease) in book value of investments	(461,807,277)	161,367,492
Increase (decrease) in book value of investments due to net amortization of discounts and premiums	330,020	566,184
(Increase) decrease in broker payable (Note 2)	23,407,151	(24,756,779)
(Increase) decrease in accounts payable	1,668	992
(Increase) decrease in due to other funds	0	18,827
(Increase) decrease in security lending obligations (Notes 3 and 6)	53,316,831	6,366,788
(Increase) decrease in security lending expense payable	102,494	229,843
Net investments managed, end of year	$ 1,372,637,201	$ 1,810,978,391

The accompanying notes are an integral part of these financial statements.

1. HISTORY AND ORGANIZATION

The Board was created by an act of the Legislature to invest and manage the State of Montana's investment funds on a centralized basis per section 17-6-201, MCA. The All Other Funds (AOF) investments and income are owned by various State of Montana agencies and managed on their behalf by the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

The AOF investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle" and applicable investment restrictions of the participants. The AOF portfolio includes securities classified as corporate asset-backed, other corporate, US government mortgage-backed, US government, Yankee bonds, equity index, real estate, mortgages and loans. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. US government mortgage-backed securities reflect participation in a pool of residential mortgages. US government securities include direct obligations of the US Treasury and indirect obligations of the US government. Yankee bonds are US dollar denominated bonds issued by foreign corporations and governments and US companies issuing debt in foreign markets. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite.

The AOF portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. Strip investments represent the separate purchase of the principal and interest cash flows of a mortgage security. These securities, purchased for portfolio diversification and a competitive rate of return, are identified and reported as government mortgage-backed securities in the investment risk and portfolio disclosures. (See Note 6 on Investment Risk Categories and Note 11 for the Year End Portfolio.)

AOF fixed income securities pay a fixed rate of interest until maturity while the variable-rate (floating-rate) securities pay a variable interest rate until maturity. The variable-rate securities float with LIBOR (London Interbank Offered Rate) or the weighted average of the net mortgage interest rates for the mortgage loan group. The one variable-rate security, with an amortized cost of 17,889,456 as of June 30, 2003 is identified and reported as a government mortgage-backed security in the investment risk and portfolio disclosures. (See Note 6 on Investment Risk Categories and Note 11 for the Year End Portfolio.)

Effective May 1, 2002, all the venture capital and leveraged buyout investments totaling $159,799,310, at cost, were transferred to the new Montana Private Equity Pool (MPEP). These investments were held by the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters' Unified retirement funds.

Effective May 1, 2003, all the Barclays Global Investors (BGI) S&P 500 Equity Index Fund A and the Dimensional Fund Advisors (DFA) US Small Cap Trust investments totaling $740 million, at cost, were transferred from the All Other Funds portfolio to the new Montana Domestic Equity Pool (MDEP). These investments were held by the Public Employees', Municipal Police Officers', Game Wardens', Sheriffs', Judges', Highway Patrol Officers', Teachers', Volunteer Firefighters' and Firefighters'Unified retirement funds.

Investments are presented in the Statement of Net Investments Managed at fair value. Fair values for publicly traded securities are determined primarily by reference to market prices supplied to the Board by the Board's custodial bank, State Street Bank and Trust. The real estate investments and residential and multi-family mortgages are valued based on a discounted cash flow. The commercial in-state coal tax loans and the nonparticipating repurchase agreements are reported at amortized cost. Amortized cost, parenthetically disclosed, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Broker Receivable/Payable

All Other Funds security transactions are recorded as of the trade date rather than the settlement date. Because of this generally accepted practice, the AOF portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received.

Montana Mortgages and Loans Receivable

The Montana mortgages and loans receivable, included in the Net Investments Managed at Fair Value, represent residential mortgages and multifamily commercial loans funded by the Public Employees' and Teachers' pension funds and other loans funded by the Coal Severance Tax Trust fund. The Coal Severance Tax Trust loan portfolio includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTA Board was abolished on July 1, 1999 and by law, the MSTA portfolio was assigned to the Board of Investments (BOI). (See Note 7 for the Montana mortgages and loans portfolio.)

As of June 30, 2003 and 2002, there were no uncollectible account balances for Montana mortgages and loans receivable.

However, during fiscal year 2002, the Board of Investments staff wrote off loan principal balances detailed as follows:

Borrower	Funding Source	Funding Date	Funding Amount	Charge-off Date	Charge-off Amount
Pasta Montana, L.L.C.	BOI	February 1999	$ 5,468,337	September 2001	$ 206,599
Pasta Montana, L.L.C.	MSTA	January 1997	350,000	September 2001	12,551
Pasta Montana, L.L.C.	MSTA	January 1997	500,000	September 2001	19,803
Nuture, Inc.	MSTA	July 1989-June 1995	1,100,000	June 2002	505,213
Optima Industries, Inc.	MSTA	Dec 1991-Jan 1994	700,000	June 2002	560,500
Ultrafem, Inc.	MSTA	Dec 1991-Oct 1992	700,000	June 2002	490,302
Total			$ 8,818,337		$ 1,794,968

Investment Income

Investment income reported in the Statement of Net Investment Income includes fixed income and mortgage interest earnings, real estate income, private equity income through April 30, 2002, commercial loan interest earnings and commitment fees.

Realized Gain on Sales

Realized gain on sales reported in the Statement of Net Investment Income represents the net gain/loss resulting from the sale of fixed income, private equity and pool investments. In fiscal year 2003, the sale of pool units from the Montana Private Equity Pool (MPEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP) and the Montana Stock Pool (MTCP) generated a net gain to participants of $41,475,231. The sale of pool units in fiscal year 2002 from the Montana Stock Pool, Montana Real Estate Investment Pool (MTRP), Retirement Funds Bond Pool and Trust Funds Bond Pool resulted in a net gain to participants of $14,001,245.

3. SECURITIES LENDING

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, State Street Bank lent, on behalf of the Board, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2003 and 2002 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2003 and 2002. Moreover, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2003 and 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the

average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2003 and June 30, 2002, the Board had no credit risk exposure to borrowers.

As of June 30, 2003, the carrying and fair value of the underlying securities on loan for the All Other Funds was $49,363,730 and $55,128,809, respectively. The collateral provided for the securities on loan totaled $56,643,400 in cash collateral.

As of June 30, 2002, the carrying and fair value of the underlying securities on loan for the All Other Funds was $101,344,163 and $106,533,000, respectively. The collateral provided for the securities on loan totaled $109,960,231 in cash collateral.

4. COAL TAX LOAN AND MORTGAGE COMMITMENTS

The Board makes firm commitments to fund loans from the Coal Severance Tax Trust fund. These commitments have expiration dates and may be extended according to the Board's policies. As of June 30, 2003, the Board had committed but not yet purchased $57,672,181 in loans from Montana lenders, compared to $81,172,614 as of June 30, 2002. In addition to the above commitments, lenders had reserved $41,421,046 for loans as of June 30, 2003, compared to $89,331,230 on the same date in 2002.

The Board makes firm commitments to fund mortgages from the Public Employees' and Teachers' retirement funds. As of June 30, 2003 and 2002, the Board had committed but not yet purchased from Montana lenders mortgages totaling $392,275 and $10,634,477, respectively. Lenders had reserved no funding for mortgages as of June 30, 2003, compared to $11,622,197 as of June 30, 2002.

5. PENSION FUND REAL ESTATE INVESTMENTS

100 North Park Building

In January 1996, the Board, on behalf of the Public Employees' and Teachers' Retirement funds, purchased the 100 North Park Avenue Building in Helena, Montana as a real estate investment. Acquired for a cost of $4,864,326, the building carries a fair value of $5,573,173 as of June 30, 2003. During fiscal year 2003, building improvements and leasing fees totaling $129,465 were added to the cost of the building. Building improvements and elevator renovations totaling $612,127 were added to the cost of the building in fiscal year 2002. The three-story building provides office space for approximately eight to ten tenants.

2401 Colonial Drive Building

In August 1997, the Board authorized the construction of an office building, as a real estate investment owned equally by the Public Employees' and Teachers' Retirement funds. Construction costs, including interest capitalization, totaled $6,481,741 as of June 30, 2000. For fiscal year 2003, $155,800 was expended on building landscaping, leasing fees, lighting and construction. In fiscal year 2002, landscaping and leasing fees of $153,452 were added to the building cost. The three-story building, providing office space for three tenants, was occupied in November 1999. As of June 30, 2003, the building carries a cost and fair value of $6,987,238 and $7,581,770, respectively.

The schedule below details the minimum future rentals for both buildings on the non-cancelable operating leases as of June 30, 2003 and 2002:

Minimum future rentals for the year ending June 30, 2003:

2004	2005	2006	2007	2008	2009+	Total
$241,763	$181,792	$164,149	$155,328	$129,439	$0	$872,471

Minimum future rentals for the year ending June 30, 2002:

2003	2004	2005	2006	2007	2008+	Total
$945,147	$194,572	$134,601	$134,601	$134,601	$44,867	$1,588,389

California Street Property

In December 1998, the Board acquired a parcel of land adjacent to the Colonial Drive building to provide for additional parking. This land was purchased for $204,835. As of June 30,2003 the property carries a fair value of $207,667.

Bozeman Office Building

In August 1999, the Board authorized the purchase of a new office building in Bozeman, Montana. When construction is complete, this building will be a real estate investment owned equally by the Public Employees' and Teachers' Retirement funds. The building will be occupied by four state agencies and is located on state school trust land. The Board anticipates completion of the building purchase in December 2003.

Ninth Avenue Building

In November 2000, the Board reviewed the transfer of the Public Employees' Retirement Administration (PERA) office building, located at 1712 Ninth Avenue, Helena, to the Board of Investments. By issuance of a corrective deed, the Board of Investments was named owner and building manager for the use and benefit of the PERA. During fiscal years 2003 and 2002, architect fees, remodeling construction and interest capitalization totaling $129,465 and $220,097, respectively, were added to the building cost for a yearend book value of $489,187. As of June 30, 2003, the building is valued at $565,413.

6. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized below and on the next page to give an indication of the level of risk assumed at June 30, 2003 and June 30, 2002. Category 1 includes investments that are insured or registered, or securities that are held by the Board or its agent in the Board's name. Not Categorized includes investments held by broker-dealers under securities loans with cash collateral. Long-term investments are carried at amortized cost and short-term investments are carried at original cost.

Risk as of June 30, 2003

Long-Term Investments
Category 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 27,192,828	$ 0	$ 0	$ 27,192,828	$ 28,069,081
Corporate Other	238,439,395	0	3,986,781	242,426,176	262,880,396
US Govt Direct/Indirect	262,143,080	0	44,897,100	307,040,180	330,784,346
US Govt Mortgage-Backed	89,289,805	0	0	89,289,805	92,741,823
Yankee Bonds	18,479,589	0	479,849	18,959,438	20,603,889
Total	$ 635,544,697	$ 0	$ 49,363,730	$ 684,908,427	$ 735,079,535
Direct Investments					
Equity Index Fund				79,000,000	69,958,153
Equity Other				15	17
Real Estate				13,512,086	13,927,253
MT Mortgages and Loans				442,681,780	444,368,306
Total Long-Term				1,220,102,308	1,263,333,264
Short-Term Investments					
Municipal Investor Account				138,412,389	138,412,389
US Bank Sweep				1,592,849	1,592,849
Total Short-Term				140,005,238	140,005,238
TOTAL INVESTMENTS				$ 1,360,107,546	$ 1,403,338,502
Securities Lending Collateral Investment Pool		$	56,643,400	$ 56,643,400	$ 56,643,400

***At June 30, 2003, these underlying securities, with a fair value of $55,128,809 were loaned for cash collateral under a security lending agreement with the state's agent.**

Risk as of June 30, 2002

Long-Term Investments
C a t e g o r y 1

Security Investment Type	Securities Not On Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
Corporate Asset-Backed	$ 28,679,968	$ 0	$ 0	$ 28,679,968	$ 29,213,792
Corporate Other	270,180,796	0	11,169,378	281,350,174	291,826,927
US Govt Direct/Indirect	191,532,198	0	89,325,679	280,857,877	292,276,188
US Govt Mortgage-Backed	96,166,718	0	0	96,166,718	98,004,751
Yankee Bonds	10,111,731	0	839,106	10,950,837	10,934,060
Total	$ 596,671,411	$ 0	$ 101,334,163	$ 698,005,574	$ 722,255,718
Direct Investments					
Equity Index Fund				539,000,000	446,705,722
Real Estate				13,066,341	13,600,605
MT Mortgages and Loans				556,512,888	562,912,548
Total Long-Term				1,806,584,803	1,745,474,593
		Short-Term Investments			
Repurchase Agreement				15,000,000	15,000,000
Total Short-Term				15,000,000	15,000,000
TOTAL INVESTMENTS			$	1,821,584,803	$ 1,760,474,593
Securities Lending Collateral Investment Pool		$	109,960,231	$ 109,960,231	$ 109,960,231

***At June 30, 2002, these underlying securities, with a fair value of $106,533,000 were loaned for cash collateral under a security lending agreement with the state's agent.**

With the exception of the US government securities, the fixed income instruments have credit risk as measured by major credit rating services. Credit risk is defined as the risk that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's and Standard & Poor's (S&P) rating services. The US government securities are guaranteed directly or indirectly by the US government.

Market risk for the above securities is caused by changes in the price or principal value of the security due to changes in interest rates and market liquidity.

As reported in the U.S. government mortgage-backed category, the AOF portfolio holds a REMIC with an amortized cost of $17,889,456 as of June 30, 2003. The REMIC securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages. When underlying mortgages are prepaid, the interest cash flows are reduced while principal cash flows are increased. If homeowners pay on mortgages longer than anticipated, the cash flow effect would be the opposite.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets. Market risk is also less because principal is paid back prior to the maturity date of the securities.

As of June 30, 2001, Service Corp. presented a credit risk to the Board. The AOF portfolio held a $5 million par, 6% Service Corp. bond maturing December 15, 2005. By February 2001, both the Moody's and S&P bond rating agencies downgraded the bond ratings for this issue below investment grade. The December 31, 2000 book value of $4,807,240 was reduced to $4,000,000 as of June 30, 2001. In April 2002, this bond was sold, on the market, for $4,752,500 including interest.

As of June 30, 2002, Enron Corp. presented a legal and higher credit risk to the Board. The AOF portfolio holds a $3 million par 6.75% Enron bond maturing August 1, 2009. The Enron Corp. filed for Chapter 11 bankruptcy protection on December 12, 2001. Accordingly, the November 2001 book value was reduced from $2,610,000 to $600,000 as of June 30, 2002. In March 2003, this issue was sold, on the market, for $472,500.

7. MONTANA MORTGAGES AND LOANS

The Montana mortgages and loans portfolio is shown below.

Montana Mortgages and Loans		2003 Book Value		2002 Book Value
Multifamily Commercial Loans	$	10,173,421	$	14,555,217
Residential Mortgages		195,687,788		309,482,740
Science and Technology Alliance*		14,287,541		14,733,670
Department of Natural Resources**		46,366,904		46,366,904
Department of Justice		1,902,000		1,827,000
Montana Facility Finance		1,543,021		1,636,510
Local Government Infrastructure		9,050,975		10,289,391
Value-added Loans		6,854,640		6,627,953
Commercial Loans		156,815,490		150,993,503
Permanent Coal Trust Loans		236,820,571		232,474,931
Total Montana Mortgages and Loans	$	442,681,780	$	556,512,888

*** The Montana Science and Technology Alliance (MSTA) loans include funding for research and development, mezzanine and seed capital loans.**

****In accordance with Senate Bill 495 enacted by the 2001 Legislature, the Coal Severance Tax Permanent Trust loaned 483,604 TFBP shares, with a book value of $46,366,904, to the Department of Natural Resources, Trust and Legacy fund on July 2, 2001. The loan proceeds were deposited in the Trust and Legacy Fund. A loan receivable was recorded in the Coal Severance Tax Permanent Trust and a corresponding liability was recorded in the Guarantee Fund, a General Fund sub-fund. The August 2002 Special Legislative Session approved the request to record this activity in a state special revenue fund of the Office of Public Instruction rather than in the Guarantee Fund.**

8. DEUTSCHE BANK SECURITIES, INC. COMPLAINT

The Board received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $2 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $215,453 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The Board tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of $113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the Board received $2,273,230 in principal and interest plus $60,000 as a consent fee.

9. LOAN GUARANTEES

As of June 30, 2003, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Facility Finance Authority, formerly known as the Montana Health Facility Authority, totaled $110,596,691. Board of Investment exposure to bond issues of the Enterprise Fund was $74,478,374 while exposure to bond issues and surety bonds of the Facility Finance Authority was $36,118,317.

As of June 30, 2002, loan guarantees provided by the Coal Severance Tax Permanent Trust to the Enterprise Fund and the Facility Finance Authority, formerly known as the Montana Health Facility Authority, total $98,222,157. Board of

Investment exposure to bond issues of the Enterprise Fund is $60,335,799 while exposure to bond issues and surety bonds of the Facility Finance Authority is $37,886,358. Due to the correction of an error, loan guarantees as of June 30, 2002 were previously reported as $97,218,949 and exposure to bond issues and surety bonds of the Facility Finance Authority were previously reported as $36,883,150.

10. RESTATEMENT

On the Statement of Changes in Net Investments Managed for the fiscal year ended 2002, the Investments Sold, Matured and Called has been restated as $1,077,446,586 from $1,237,245,896 to reflect the transfer of $159,799,310 of the Private Equity venture capital and leveraged buyout investments to the Montana Private Equity Pool (MPEP).

11. YEAR END PORTFOLIO

The June 30, 2003 All Other Funds portfolio is listed below. The security type percentage is based on the fair value ratio of the specific category of securities to the total portfolio.

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
AMERICREDIT AUTOMOBILE TRUST	7.150	08/12/04	40,351	40,351	40,364	0.00%
AMERICREDIT AUTOMOBILE TRUST	6.740	05/05/05	2,657,121	2,656,918	2,674,143	0.19%
J P MORGAN CHASE COMMERCIAL MTG TRST	4.200	07/12/35	24,375,819	24,495,559	25,354,574	1.81%
CORPORATE ASSET-BACKED			**27,073,292**	**27,192,828**	**28,069,081**	**2.00%**
AMERICAN AIRLINE EQUIPMENT TRUST	6.977	05/23/21	4,065,701	4,054,336	3,333,874	0.24%
AMERICAN TRANS AIR EQUIPMENT TRUST	8.039	07/15/17	4,484,900	4,484,900	4,761,431	0.34%
ASHLAND INC	7.830	08/15/05	10,000,000	10,000,000	10,917,790	0.78%
BANK OF AMERICA	7.875	05/16/05	5,000,000	5,168,927	5,583,651	0.40%
BANK ONE	6.250	02/15/08	2,000,000	1,924,399	2,294,683	0.16%
BANKBOSTON NA	6.375	03/25/08	2,000,000	1,928,947	2,278,711	0.16%
BORG WARNER AUTOMOTIVE INC	7.000	11/01/06	4,000,000	4,049,890	4,494,736	0.32%
BURLINGTON NORTHERN RR CO	6.940	01/02/14	3,748,199	3,748,199	4,493,457	0.32%
BURLINGTON NORTHERN SANTA FE RY	7.160	01/02/20	4,679,425	4,679,425	5,288,899	0.38%
CIT GROUP EQUIPMENT TRUST	6.490	01/05/21	8,152,315	8,152,315	8,363,907	0.60%
CIT GROUP INC	5.750	09/25/07	5,000,000	5,181,005	5,496,038	0.39%
CIT GROUP INC	5.625	05/17/04	5,000,000	4,998,288	5,158,811	0.37%
CSX CORP	7.450	05/01/07	5,000,000	4,997,102	5,850,340	0.42%
CITIGROUP INC	5.750	05/10/06	1,000,000	999,949	1,102,727	0.08%
CITIGROUP INC	6.000	02/21/12	5,000,000	4,998,401	5,703,307	0.41%
CONSOLIDATED NATURAL GAS CO	7.250	10/01/04	10,000,000	9,994,382	10,681,098	0.76%
CONTINENTAL AIRLINES EQUIPMENT TRUST	6.563	02/15/12	5,000,000	5,024,369	5,289,050	0.38%
DELTA AIR LINES INC EQUIPMENT TRUST	6.417	07/02/12	10,000,000	9,959,721	10,462,500	0.75%
DETROIT EDISON CO	5.200	10/15/12	5,000,000	4,935,623	5,363,124	0.38%
ENSERCH CORP	6.375	02/01/04	5,000,000	4,987,186	5,104,548	0.36%
FMC CORP	6.375	09/01/03	3,000,000	2,999,034	3,007,500	0.21%
FIRST BANK NA	8.350	11/01/04	5,000,000	4,999,332	5,407,141	0.39%
FIRST CHICAGO CORP	6.375	01/30/09	2,000,000	1,892,339	2,303,999	0.16%
FIRST SECURITY CORP	6.875	11/15/06	5,000,000	4,996,939	5,730,682	0.41%
FIRST UNION CORP	7.050	08/01/05	5,000,000	4,987,426	5,521,324	0.39%
FIRST UNION CORP	7.100	08/15/04	1,000,000	999,426	1,061,614	0.08%
FORD MOTOR CREDIT CO	6.700	07/16/04	10,000,000	10,027,546	10,395,580	0.74%
GENERAL ELECTRIC CAPITAL CORP	5.375	03/15/07	10,000,000	10,236,550	11,034,565	0.79%
GENERAL MOTORS ACCEPTANCE CORP	7.500	07/15/05	9,000,000	8,996,513	9,656,229	0.69%
GENERAL MOTORS ACCEPTANCE CORP	6.125	08/28/07	5,000,000	5,007,620	5,210,905	0.37%
J P MORGAN CHASE + CO	5.350	03/01/07	5,000,000	4,981,617	5,496,613	0.39%
KCT INTERMODAL EQUIPMENT TRUST	6.884	08/01/18	3,753,867	3,753,867	4,115,616	0.29%
K N ENERGY INC	6.650	03/01/05	7,000,000	7,044,256	7,494,577	0.53%
KEY CORP	7.500	06/15/06	5,000,000	4,997,106	5,713,098	0.41%
MARSH AND MCLENNAN COS INC	6.625	06/15/04	1,000,000	999,049	1,049,782	0.07%
MARSH AND MCLENNAN COS INC	7.125	06/15/09	3,000,000	2,995,568	3,604,248	0.26%
NATIONSBANK CORP	7.750	08/15/04	5,000,000	4,981,577	5,358,711	0.38%
NATIONWIDE FINANCIAL SERVICES INC	6.250	11/15/11	5,000,000	5,344,042	5,538,589	0.39%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
NORFOLK SOUTHERN CORP	7.350	05/15/07	3,500,000	3,499,064	4,098,971	0.29%
NORTHWEST AIRLINES EQUIPMENT TRUST	6.810	08/01/21	4,417,909	4,353,593	4,373,730	0.31%
OLD REPUBLIC INTERNATIONAL CORP	7.000	06/15/07	3,000,000	2,999,358	3,485,691	0.25%
PPL MONTANA LLC	8.903	07/02/20	4,647,959	4,647,959	5,221,006	0.37%
SOUTHWEST GAS CORP	8.375	02/15/11	4,000,000	3,995,341	4,662,586	0.33%
SPRINT CAPITAL CORP	5.875	05/01/04	1,500,000	1,497,605	1,540,336	0.11%
UNION OIL CO CALIFORNIA	7.200	05/15/05	5,000,000	4,999,305	5,447,391	0.39%
UNION PACIFIC CORP	6.400	02/01/06	5,000,000	4,989,927	5,528,081	0.39%
UNION PACIFIC RESOURCES GROUP INC	7.000	10/15/06	5,000,000	4,990,323	5,697,631	0.41%
UNION TANK CAR CO	7.125	02/01/07	2,000,000	1,999,233	2,314,055	0.16%
WACHOVIA CORP	4.950	11/01/06	5,000,000	4,992,686	5,405,098	0.39%
WAL MART STORES INC PASS THRU TRUST	8.450	07/01/04	986,489	986,489	1,054,414	0.08%
WELLS FARGO + CO	5.900	05/21/06	1,000,000	999,289	1,108,250	0.08%
WESTERN PROPERTIES REIT	7.875	02/15/04	2,000,000	1,999,635	2,069,186	0.15%
WESTERN PROPERTIES REIT	7.200	09/15/08	1,000,000	969,200	1,150,522	0.08%
CORPORATE OTHER			**241,936,763**	**242,426,176**	**262,880,395**	**18.73%**
ENSCO OFFSHORE CO USGG XI	6.360	12/01/15	12,500,132	12,500,132	13,781,895	0.98%
FEDERAL HOME LOAN MORTAGE CORP	4.750	10/11/12	40,000,000	39,840,080	41,048,068	2.93%
FEDERAL HOME LOAN MORTAGE CORP	5.125	05/13/13	20,000,000	20,000,000	20,220,728	1.44%
FEDERAL FARM CREDIT BANKS	3.875	02/01/05	20,000,000	19,906,316	20,812,718	1.48%
FEDERAL FARM CREDIT BANKS	4.875	11/15/06	5,000,000	4,952,042	5,452,792	0.39%
FEDERAL FARM CREDIT BANKS	4.875	02/15/07	5,000,000	4,999,202	5,469,564	0.39%
FEDERAL FARM CREDIT BANKS	4.000	02/15/05	10,000,000	9,992,400	10,432,920	0.74%
FEDERAL HOME LOAN MORTAGE CORP	6.250	07/15/04	10,000,000	9,977,943	10,527,104	0.75%
FEDERAL HOME LOAN MORTAGE CORP	5.625	03/15/11	10,000,000	10,071,713	11,418,639	0.81%
FEDERAL HOME LOAN MORTAGE CORP	6.000	06/15/11	15,000,000	14,989,422	17,502,402	1.25%
FEDERAL HOME LOAN MORTAGE CORP	3.250	11/15/04	10,000,000	9,890,703	10,276,859	0.73%
FEDERAL NATIONAL MORTAGE ASSOCIATION	6.000	05/15/08	5,000,000	4,893,961	5,764,926	0.41%
FEDERAL NATIONAL MORTAGE ASSOCIATION	0.000	06/01/17	14,600,000	5,938,809	7,438,723	0.53%
FEDERAL NATIONAL MORTAGE ASSOCIATION	7.250	01/15/10	8,000,000	8,377,268	9,893,629	0.71%
FEDERAL NATIONAL MORTAGE ASSOCIATION	7.000	07/15/05	2,000,000	2,009,925	2,221,943	0.16%
FEDERAL NATIONAL MORTAGE ASSOCIATION	6.625	10/15/07	15,000,000	16,192,225	17,555,573	1.25%
FEDERAL NATIONAL MORTAGE ASSOCIATION	6.625	11/15/10	10,000,000	10,320,663	12,081,131	0.86%
FEDERAL NATIONAL MORTAGE ASSOCIATION	6.000	12/15/05	2,000,000	2,017,531	2,209,540	0.16%
FEDERAL NATIONAL MORTAGE ASSOCIATION	5.250	06/15/06	5,000,000	5,031,326	5,490,183	0.39%
FEDERAL NATIONAL MORTAGE ASSOCIATION	5.875	02/14/06	5,000,000	4,925,306	5,516,972	0.39%
FEDERAL NATIONAL MORTAGE ASSOCIATION	5.740	01/21/09	8,000,000	7,556,838	8,206,522	0.58%
FEDERAL NATIONAL MORTAGE ASSOCIATION	2.750	09/12/06	27,000,000	27,000,000	27,268,383	1.94%
GLOBAL INDUSTRIES LTD USGG XI	7.710	02/15/25	4,400,000	4,400,000	4,400,000	0.31%
GUARANTEED EXPORT TRUST PDVSA	6.280	06/15/04	705,882	705,882	731,520	0.05%
MAYBANK NAVIGATION CO LLC USGG XI	7.620	07/25/20	4,375,000	4,375,000	4,593,269	0.33%
NORTH AMERICAN SHIP BUILDING USGG XI	5.840	02/15/06	1,920,000	1,920,000	2,019,341	0.14%
PERFORADORA CENT S A DE C V USGG XI	5.630	07/15/11	16,647,000	16,634,495	17,571,574	1.25%
ROWAN COS INC USGG XI	5.880	03/15/12	20,452,000	20,452,000	23,077,832	1.64%
TRICO MARINE INTERNATIONAL USGG XI	6.080	09/01/06	4,375,000	4,375,000	4,653,163	0.33%
MAYBANK NAVIGATION CO LLC USGG XI	5.900	09/16/13	2,794,000	2,794,000	3,146,435	0.22%
GOVERNMENT DIRECT-INDIRECT			**314,769,014**	**307,040,180**	**330,784,346**	**23.57%**
FEDERAL HOME LOAN POOL G10814	5.500	05/01/13	7,189,988	7,184,667	7,517,470	0.54%
FEDERAL HOME LOAN POOL G10173	6.000	01/01/09	672,199	670,111	701,188	0.05%
FEDERAL HOME LOAN POOL E00247	5.500	10/01/08	579,138	571,731	604,792	0.04%
FEDERAL HOME LOAN POOL E00540	6.000	03/01/13	4,800,845	4,785,855	5,019,884	0.36%

Security Name	Coupon	Maturity	Par	Book Value	Fair Value	% of Total
FEDERAL HOME LOAN POOL E00659	6.000	04/01/14	4,669,223	4,665,643	4,876,420	0.35%
FNMA POOL 190985	7.500	08/01/09	1,723,488	1,723,487	1,846,353	0.13%
FNMA POOL 254140	5.500	01/01/17	20,714,828	20,630,901	21,554,750	1.54%
FNMA POOL 254233	5.000	03/01/17	12,418,573	12,003,590	12,851,768	0.92%
FNMA POOL 254631	5.000	02/01/18	9,401,953	9,564,706	9,726,505	0.69%
FNMA POOL 303590	7.000	11/01/10	1,915,237	1,915,237	2,042,945	0.15%
FNMA POOL 313999	6.000	02/01/13	2,550,964	2,538,743	2,676,917	0.19%
FNMA POOL 572220	6.000	03/01/16	1,771,825	1,766,899	1,853,772	0.13%
FNMA POOL 592327	5.500	06/01/16	3,457,229	3,378,779	3,599,570	0.26%
GOVERNMENT NATIONAL MORTAGE ASSOC	2.196	04/16/20	17,950,842	17,889,456	17,869,489	1.27%
GOVERNMENT-MORTGAGE BACKED			**89,816,333**	**89,289,805**	**92,741,823**	**6.61%**
CASE CORP	6.250	12/01/03	5,000,000	4,998,428	5,018,750	0.36%
HOUSEHOLD FINANCE CORP	6.875	03/01/07	3,000,000	2,961,631	3,454,340	0.25%
HOUSEHOLD FINANCE CORP	6.500	01/24/06	5,000,000	5,036,880	5,550,799	0.40%
IBP FINANCIAL CO CANADA	7.450	06/01/07	4,000,000	3,998,918	4,340,000	0.31%
PANAMERICAN BEVERAGES INC	7.250	07/01/09	2,000,000	1,963,581	2,240,000	0.16%
YANKEE BONDS			**19,000,000**	**18,959,438**	**20,603,889**	**1.47%**
S & P 500 INDEX FUND B	N/A	N/A	555,010	79,000,000	69,958,153	4.99%
EQUITY INDEX FUND			**555,010**	**79,000,000**	**69,958,153**	**4.99%**
OCEAN WEST HOLDING CORP	N/A	N/A	100	15	17	0.00%
EQUITY OTHER			**100**	**15**	**17**	**0.00%**
CALIFORNIA STREET, HELENA,MONTANA	N/A	N/A	204,835	204,835	207,667	0.01%
2401 COLONIAL DRIVE, HELENA, MONTANA	N/A	N/A	6,987,238	6,987,238	7,581,000	0.54%
NINTH AVENUE, HELENA, MONTANA	N/A	N/A	489,187	489,187	565,413	0.04%
100 NORTH PARK AVENUE, HELENA, MT	N/A	N/A	5,830,825	5,830,825	5,573,173	0.40%
EQUITY REAL ESTATE			**13,512,086**	**13,512,086**	**13,927,253**	**0.99%**
MT MULTI FAMILY/COMMERCIAL LOANS	N/A	N/A	10,173,421	10,173,421	10,135,819	0.72%
MONTANA RESIDENTIAL MORTGAGES	N/A	N/A	195,687,788	195,687,788	197,411,916	14.07%
MONTANA PERMANENT COAL TRUST LOANS	N/A	N/A	236,820,571	236,820,571	236,820,571	16.88%
MORTGAGES/LOANS			**442,681,780**	**442,681,780**	**444,368,306**	**31.67%**
US BANK MUNICIPAL INVESTOR ACCOUNT	1.600	N/A	138,412,389	138,412,389	138,412,389	9.86%
US BANK SWEEP	0.300	07/01/03	1,592,849	1,592,849	1,592,849	0.11%
CASH EQUIVALENTS			**140,005,238**	**140,005,238**	**140,005,238**	**9.98%**
TOTAL ALL OTHER FUNDS			**1,289,349,616**	**1,360,107,546**	**1,403,338,502**	**100.00%**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Enterprise Fund of the state of Montana Board of Investments as of June 30, 2003 and 2002, and the related Statement of Revenues, Expenses, and Changes in Fund Net Assets and Statement of Cash Flows for the fiscal years then ended. These financial statements are the responsibility of the Board of Investments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Enterprise Fund of the Montana Board of Investments and are not intended to present fairly the financial position, of the state of Montana as of June 30, 2003 and 2002, and the results of operations and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana Board of Investments' Enterprise Fund as of June 30, 2003 and 2002, and the results of its operations and cash flows of its Enterprise Fund for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The other data included in this report was not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

November 4, 2003

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STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF NET ASSETS AS OF JUNE 30, 2003 AND 2002

		2003		2002
Assets				
Current assets:				
Cash and cash equivalents (Note 1)	$	10,762,957	$	7,810,496
Interest receivable		1,050,039		1,167,493
Notes/loans receivable (Note 1)		6,356,754		4,448,775
Short-term investments (Note 2)		8,954,343		1,443,516
Due from other funds		179		0
Prepaid expenses		36		74
Total current assets		27,124,308		14,870,354
Noncurrent assets:				
Noncurrent assets restricted:				
Notes/loans receivable (Note 1)		47,751,994		45,801,121
Investments (Note 2)		3,496,317		3,706,017
Total assets restricted		51,248,311		49,507,138
Notes/loans receivable (Note 1)		7,662,518		9,237,788
Investments (Note 2)		175,000		414,067
Capitalized cost of issue (Note 1)		1,220,532		984,976
Equipment		12,239		12,239
Accumulated depreciation		(6,120)		(4,162)
Total noncurrent assets		60,312,480		60,152,046
Total assets	$	87,436,788	$	75,022,400
Liabilities				
Current liabilities:				
Advances	$	101,272	$	171,547
Due to other funds		7,259		4,802
Accrued expenses		11,018		2,277
Accrued interest payable		649,706		801,857
Deferred cost of issue recovery		17,785		17,785
Arbitrage rebate tax payable		73,344		71,839
Compensated absences		12,040		17,775
Current bonds/notes payable (Note 4)		74,266,636		59,329,761
Total current liabilities		75,139,060		60,417,643
Noncurrent liabilities				
Bonds/notes payable (Note 4)		7,188,600		9,709,409
Compensated absences		18,929		16,047
Deferred cost of issue recovery		17,785		35,569
Arbitrage rebate tax payable		97,294		100,215
Total noncurrent liabilities		7,322,608		9,861,240
Total liabilities	$	82,461,668	$	70,278,883
Net Assets				
Invested in capital assets, net of related debt	$	6,119	$	8,077
Restricted (Note 1)		2,852,753		2,460,293
Unrestricted		2,116,248		2,275,147
Total net assets (Note 8)	$	4,975,120	$	4,743,517
Total liabilities and net assets	$	87,436,788	$	75,022,400

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

Operating revenue	2003	2002
Reimbursements	$ 20,403	$ 12,992
Investment income	339,106	575,823
Security lending income	0	135
Financing income	2,595,717	2,892,571
Total operating revenue	2,955,226	3,481,521
Operating expenses		
Personal services	198,973	172,187
Contracted services	38,174	65,035
Supplies and materials	4,382	7,801
Communications	7,051	8,177
Travel	3,906	4,535
Rent	38,749	38,312
Repair and maintenance	499	1,460
Indirect and other costs	35,662	33,038
Depreciation expense	1,958	1,669
Arbitrage rebate tax expense	81,862	47,065
Security lending expense	0	121
Debt service		
Interest expense	1,675,336	2,526,438
Trustee fee expense	40,541	41,239
Bond issuance cost amortization expense	142,349	164,118
Other debt service expense	156,915	140,283
Total operating expenses	2,426,357	3,251,478
Operating income	528,869	230,043
Nonoperating (expense):		
Transfers out (Note 6)	(297,266)	0
Change in net assets	231,603	230,043
Beginning net assets	4,743,517	4,513,474
Ending net assets (Note 8)	$ 4,975,120	$ 4,743,517

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

		2003		2002
Cash flows from operating activities:				
Receipts for sales and services	$	20,403	$	12,992
Payments to suppliers for goods and services		(126,042)		(158,624)
Payments to employees		(193,186)		(182,437)
Net cash (used for) operating activities		(298,825)		(328,069)
Cash flows from non-capital financing activities:				
Payment of principal and interest on bonds and notes		(5,128,094)		(6,842,701)
Proceeds from issuance of bonds and notes		15,476,643		1,043,636
Payment of bond issue costs		(335,330)		0
Transfers to other funds (Note 6)		(297,266)		0
Net cash (used for) provided by non-capital financing activities		9,715,953		(5,799,065)
Cash flows from capital and related financing activities:				
Acquisition of fixed assets		0		(6,411)
Net cash (used for) capital and related financing activities		0		(6,411)
Cash flows from investing activities:				
Collections for principal and interest on loans		25,005,756		17,449,926
Cash payments for loans		(24,688,342)		(17,120,612)
Purchase of investments		(11,979,150)		(312,298)
Proceeds from security lending		0		135
Security lending costs		0		(121)
Proceeds from sales or maturities of investments		4,914,061		1,363,000
Interest on investments		366,287		550,491
Payments for arbitrage rebate tax		(83,279)		(247,622)
Net cash (used for) provided by investing activities		(6,464,667)		1,682,899
Net increase (decrease) in cash and cash equivalents		2,952,461		(4,450,646)
Cash and cash equivalents, July 1		7,810,496		12,261,142
Cash and cash equivalents, June 30		10,762,957		7,810,496
Reconciliation of net income to net cash (used for) operating activities:				
Net income		528,869		230,043
Adjustments to reconcile net income to net cash (used for) operating activities				
Depreciation		1,958		1,668
Interest on investments		(339,106)		(575,823)
Financing income		(2,595,717)		(2,892,571)
Interest expense		2,015,141		2,872,078
Security lending income		0		(135)
Security lending expense		0		121
Arbitrage rebate tax expense		81,862		47,065
Change in assets and liabilities:				
Increase/decrease in due from other funds		(179)		0
Increase/decrease in other assets		38		15
Increase/decrease in other payables		8,741		459
Increase/decrease in due to other funds		2,421		(7,221)
Increase/decrease in compensated absences payable		(2,853)		(3,768)
Total adjustments		(827,694)		(558,112)
Net cash (used for) operating activities	$	(298,825)	$	(328,069)
Schedule of noncash transactions:				
Increase/decrease in fair value of investments	$	1,303	$	68,500
Total noncash transactions	$	1,303	$	68,500

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The Board uses the accrual basis of accounting for the Enterprise Fund. Under the accrual basis of accounting, expenses are recorded when incurred and revenues are recorded when earned. The financial statements are prepared from the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) and information contained in the bond trustee statements. The statements include the financial activity administered by the Board in the Enterprise Fund.

b. Presentation of Programs

The Board uses the Enterprise Fund to account for its programs created under the Economic Development Bond Act and the Municipal Finance Consolidation Act.

Economic Development Bond Act programs include:

- **The Industrial Development Bond Program (IDB) provides access to limited economic development projects through the issuance of conduit debt.**
- **The Conservation Reserve Enhancement Program (CRP), created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.**
- **The Family Friendly Business Loan Program provides zero interest loans to qualified business owners who hire participants of the Families Achieving Independence in Montana (FAIM) employment and training component.**

Municipal Finance Consolidation Act programs include:

- **The INTERCAP loan program provides funds to eligible Montana governments to finance capital expenditures for up to ten years.**
- **The Irrigation District Pooled Loan Program provided funds for the Board to purchase the refunding bonds from participating irrigation districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans.**
- **The School District Pooled Refunding Program provided funds for the Board to purchase the general obligation refunding bonds of participating Montana School Districts.**

c. Fixed Asset Depreciation

The equipment fixed assets recorded in the Enterprise Fund are depreciated on a straight-line basis, with salvage value, in accordance with state policy.

d. Receivables

The Enterprise Fund notes/loan receivables of $61,771,266 as of June 30, 2003, and $59,487,684 as of June 30, 2002, represent loans made to Montana businesses and local governments. As of June 30, 2003 and 2002, there were no uncollectible account balances.

e. Capitalized Cost of Issue

The Enterprise Fund capitalized cost of issue asset of $1,220,532 and $984,976 as of June 30, 2003 and June 30, 2002, respectively, represents paid bond issuance costs which have been capitalized and are being amortized, using the straight-line method, over the life of the bond.

f. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents, as identified in the Statement of Net Assets, are as follows:

	June 30, 2003	June 30, 2002
Cash in treasury	$ 13,726	$ 17,612
Cash with fiscal agent	2,243,569	(245,742)
Short Term Investment Pool (STIP)	142,680	80,417
First American treasury obligation class D corporate trust fund	8,362,982	7,958,209
Cash and cash equivalents	$ 10,762,957	$ 7,810,496

Due to the correction of an error, the Cash in Treasury as of June 30, 2002 has been restated from $16,794 to $17, 612 and the June 30, 2002 Cash and Cash Equivalents total has been restated from $7,809,678 to $7,810,496.

The Enterprise Fund invests its excess cash in the Board's Short Term Investment Pool, STIP, an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP participants include both state agencies and local governments. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values.

g. Restricted Assets

The Statement of Net Assets for the Enterprise Fund reports restricted assets. Net assets are reported as restricted when constraints placed on net asset use are either:

a. **Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.**
b. **Imposed by law through constitutional provisions or enabling legislation.**

The net assets of all Enterprise Fund programs with the exception of MEDB (Montana Economic Development Bonds) Guarantee Fund Account, MEDB Guarantee CRP Note Reserve, MEDB Contingency Account, MEDB Family Friendly Account and CRP are restricted under bond indentures governing the use of these funds.

2. INVESTMENTS

The deposits and investments in the Enterprise Fund are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the Short Term Investment Pool (STIP) administered by the Board. The deposits and investments are combined on the Board's financial statements.

Investments are presented in the Statement of Net Assets at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the Board's trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line method to the maturity date of the securities.

The Board's investments in the Enterprise Fund are classified on the next page as to credit risk by Category 1, which includes investments that are insured or registered, or securities held by the Board or its agent in the Board's name.

Risk as of June 30, 2003 Long-Term Investments Investment Type	Category 1	Carrying Value	Fair Value
Government Securities	$ 3,509,883	$ 3,509,883	$ 3,671,317
Total long-term investments	$ 3,509,883	$ 3,509,883	$ 3,671,317
Short-Term Investments			
Government Securities	$ 8,922,955	$ 8,922,955	$ 8,954,343
Total short-term investments	$ 8,922,955	$ 8,922,955	$ 8,954,343
Securites Lending Collateral Investment Pool	$ 0	$ 0	$ 0

Risk as of June 30, 2002 Long-Term Investments Investment Type	Category 1	Carrying Value	Fair Value
Government Securities	$ 3,953,192	$ 3,953,192	$ 4,120,084
Total long-term investments	$ 3,953,192	$ 3,953,192	$ 4,120,084
Short-Term Investments			
Government Securities	$ 1,418,888	$ 1,418,888	$ 1,443,516
Total short-term investments	$ 1,418,888	$ 1,418,888	$ 1,443,516
Securites Lending Collateral Investment Pool	$ 0	$ 0	$ 0

There were no derivative transactions during the above fiscal years for investments held by the trustee.

3. SECURITY LENDING

The Enterprise Fund is a participant in the Board's Short Term Investment Pool (STIP).

Under the provisions of state statutes, the Board has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's STIP securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, State Street lent, on behalf of the Board, certain STIP securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The Board did not impose any restrictions during fiscal years 2003 and 2002 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2003 and 2002. Moreover, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street.

During fiscal years 2003 and 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2003 and June 30, 2002, the Board had no credit risk exposure to borrowers.

4. BONDS PAYABLE

Long-Term Bonds Payable

Economic Development Bonds (EDB) and Municipal Finance Consolidation Act Bonds (MFCAB)

These bonds are issued under the Economic Development Bond Act, and the Municipal Finance Consolidation Act, for the purpose of assisting Montana's small businesses and local governments in obtaining low cost financing. Outstanding obligations are listed as follows (in thousands):

Bonds Payable as of June 30, 2003

Program	Series	Amount Issued	Interest Range %	Principal Payments FY 2004	Principal Payments @ Maturity	Balance June 30,2003
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	4,976	6.60-7.75	520	130 (2014)	1,707
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (3)	1991	6,234	4.75-6.50	287	294 (2005)	581
Conservation Reserve Enhancement Program (CRP Bonds) (2)		6,977	6.00-8.00	1,270	30 (2011)	6,977
Total Bonds Payable		$ 18,187		$ 2,077		$ 9,265
Less Current Portion (FY2003 Principal Payments)						(2,077)
Total Long-Term Bonds Payable						$ 7,188

Bonds Payable as of June 30, 2002

Program	Series	Amount Issued	Interest Range %	Principal Payments FY 2003	Principal Payments @ Maturity	Balance June 30,2002
Municipal Finance Consolidation Act Bonds (Irrigation Program) (1)	1988	4,976	6.60-7.75	515	130 (2014)	2,180
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (3)	1991	6,234	4.75-6.50	285	294 (2005)	866
Conservation Reserve Enhancement Program (CRP Bonds) (2)		8,703	6.00-8.00	1,240	43 (2011)	8,703
Total Bonds Payable		$ 19,913		$ 2,040		$11,749
Less Current Portion (FY2002 Principal Payments)						(2,040)
Total Long-Term Bonds Payable						$9,709

(1) The Board issued these bonds to provide funds to purchase the Refunding Bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment which is a lien against real property in the Irrigation District. While the Irrigation Bonds are not obligations of the State of Montana, the bonds are limited obligations of the Board due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation

District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The Indenture does not permit the issuance of additional bonds.

(2) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

(3) The Board issued these bonds to provide funds to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. The 1991 Bonds are limited obligations of the Board, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the state is pledged to the payment of principal of or interest on the bonds.

Fiscal year 2004 debt service requirements (principal & interest) are listed below (in thousands):

2004	2005	2006	2007	2008	2009+	Total
$2,680	$2,352	$1,785	$1,648	$1,629	$1,544	$11,638

Fiscal year 2003 debt service requirements (principal & interest) are listed below (in thousands):

2003	2004	2005	2006	2007	2008+	Total
$2,849	$2,789	$2,459	$1,889	$1,750	$3,226	$14,962

Current Bonds Payable

The Enterprise Fund is authorized to issue INTERCAP bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $120 million as amended by the 2003 Legislature. Previously, INTERCAP bonds may not aggregate more than $80 million through June 30, 2011 and then $75 million thereafter. The INTERCAP bonds provide funds for the Board to make loans to eligible government units. The bonds are not a debt or liability of the State of Montana. The bonds are limited obligations of the Board payable solely from: a) repayments of principal and interest on loans made by the Board to participating eligible Montana governments; b) investment income under the indenture; and c) an irrevocable pledge by the Board. The Board has no taxing power. These bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. The Board did not enter into an arms-length financing agreement to convert the bonds "put", but not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are recorded as current liabilities of the Enterprise Fund. The INTERCAP obligations at June 30, 2003 and June 30, 2002, are listed below (in thousands):

Series	Amount Issued	Interest Range	Maturity	Balance June 30, 2003	Balance June 30, 2002
1992	6,500	Variable	2005	6,075	6,075
1994	7,500	Variable	2009	6,975	7,005
1995	7,500	Variable	2010	7,115	7,150
1997	10,000	Variable	2017	9,740	9,775
1998	12,500	Variable	2018	12,285	12,285
2000	15,000	Variable	2025	15,000	15,000
2003	$15,000	Variable	2028	15,000	0
Total INTERCAP Debt	$74,000			72,190	57,290
Current Portion of Long-Term Bonds Payable				2,077	2,040
Total Current Bonds Payable				$74,267	$59,330

5. OTHER DEBT

Conduit Debt

In this program, the Board is authorized to issue stand-alone industrial revenue bonds, under the Economic Development Act, as conduit (no commitment) debt. Assets and revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as conduit (no-commitment) debt are listed below (in thousands):

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2003	Balance June 30, 2002
MT Cenex (Farmers Union)	August 1985	09/01/2010	$ 3,925	$ 3,925	$ 3,925
Colstrip	October 1989	12/30/2015	60,800	57,300	59,100
Yellowstone Energy (BGI)	July 1993	12/31/2019	118,345	117,345	117,645
Stillwater Mining	July 2000	07/01/2020	30,000	30,000	30,000
Gainey Foundation	October 2002	09/01/2014	6,000	6,000	0
Total conduit debt			$ 219,070	$ 214,570	$ 210,670

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases the taxing power, of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as conduit (no-commitment) debt are listed below (in thousands):

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2003	Balance June 30, 2002
Huntley Project K-12 Schools	December 2000	07/01/2013	$ 750	$ 750	$ 750
Total conduit debt			$ 750	$ 750	$ 750

6. TRANSFERS OUT

In fiscal year 2003, the Enterprise Fund transferred $297,266 to the Board of Investment's Investment account.

7. INTERCAP PROGRAM LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the INTERCAP loan program. As of June 30, 2003 and 2002, respectively, the Board committed to make loans to eligible Montana governments totaling $20,170,082 and $26,023,707.

8. NET ASSETS

Net Assets represents the accumulated net profits of the Enterprise Fund programs. The Net Assets for fiscal years ended June 30, 2003 and June 30, 2002 include $192,823 and $191,520, respectively, in unrealized appreciation/depreciation in reporting the fair value of the Enterprise Fund investments.